

SUBCOMMITTEE No. 4

LEGISLATIVE, EXECUTIVE, JUDICIAL BRANCH, TRANSPORTATION, PUBLIC SAFETY, and GENERAL GOVERNMENT

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TRANSPORTATION

Overview of the Transportation Budget

The Governor proposes total transportation expenditures of \$16.382 billion (\$1.558 billion General Fund) in 2007-08. These expenditure figures include the following departments (dollars in thousands):

Department	General Fund	Other Funds	Total
CA Transportation Commission (CTC)		\$5,725	\$5,725
State Transit Assistance (STA)		\$784,658	\$784,658
Department of Transportation (Caltrans)	\$1,558,396	\$11,201,402	\$12,759,798
High Speed Rail Authority (HSRA)		\$1,159	\$1,159
Office of Traffic Safety (OTS)		\$96,299	\$96,299
California Highway Patrol (CHP)		\$1,831,399	\$1,831,399
Department of Motor Vehicles (DMV)		\$902,860	\$902,860
TOTAL	\$1,558,396	\$14,823,502	\$16,381,898

Proposed expenditures in 2007-08 are \$1.9 billion more than revised 2006-07 expenditures – primarily due to revenue from the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B). In addition to the figures listed above, Budget Item 9350 apportions monies collected by the State to local governments based on a statutory formula, including \$1.173 billion in transportation revenues from the Highway Users Tax Account and \$600 million in Prop 1B bond funds.

2600 California Transportation Commission

The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail, and transit improvements throughout California. The CTC also advises and assists the Secretary of Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for California's transportation programs.

The Governor proposes total expenditures of \$5.7 million and 17.6 positions for the CTC (no General Fund). The only budget change proposal is an augmentation of \$289,000 and 2 positions to perform workload associated with the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B). The budget also reflects \$3 million in local assistance expenditures related to Proposition 116 (Rail Transportation Bond Act of 1990).

2640 State Transit Assistance

The State Transit Assistance (STA) budget item provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation programs. Revenue traditionally comes from the sales tax on diesel fuel and a portion of the sales tax on gasoline (including a Proposition 42 component), and is available for either operations or capital investment. With the passage of the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B), bond funds are also available for this program. However, bond funds may only be used for capital investment.

The Governor proposes funding of \$784.7 million for State Transit Assistance – an increase of \$160.9 million. This proposal includes \$600 million in Prop 1B bond funds and \$185 million in traditional fuel sales tax funds. While this proposed budget is up overall, the STP would actually receive a \$411 million cut relative to what current statute dictates. This program, under statute, would receive 50 percent of specified fuel sales tax revenue, or \$596 million with the Governor's Budget revenue forecast. The Administration indicates this \$411 million reduction ties to an overpayment of \$102 million in 2006-07 and the STA's share of 2007-08 spillover revenue, which is estimated at \$309 million. The spillover reduction is proposed to be an ongoing budget reduction. This proposal is part of the larger Administration proposal to use \$1.1 billion in Public Transportation Account revenues for General Fund relief. The overall proposal is discussed in the Caltrans section below.

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of over 15,000 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into five primary programs: Aeronautics; Highway Transportation; Mass Transportation; Transportation Planning; and Administration.

The Governor proposes total expenditures of \$12.760 billion (\$1.558 billion General Fund) and 21,758.3 positions, an increase of \$1.541 billion (14 percent) and 68.4 positions. The increase is primarily due to revenue from the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B). Note, the Administration is also requesting a supplemental appropriation for 2006-07 to allocate \$523 million in Prop B bond funds in the current year.

Caltrans Budget Summary

Expenditure by Program (dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Aeronautics	\$8,501	\$8,693	\$192	2.3
Highway Transportation	9,554,208	\$11,336,749	1,782,541	18.7
Mass Transportation	1,113,002	873,938	-239,064	-21.5
Transportation Planning	197,411	179,476	-17,935	-9.1
Administration	345,599	360,942	15,343	4.4
Total	\$11,218,721	\$12,759,798	\$1,541,077	13.7

Expenditure by Category (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Personal Services	\$1,905,825	\$2,072,361	\$166,536	8.7
Operating Expenses and Equipment	1,582,737	\$1,565,112	-17,625	-1.1
Tort Payments	53,556	53,556	0	0.0
Debt Service (GARVEE bonds)	72,899	72,899	0	0.0
Local Assistance	2,957,970	3,193,413	235,443	8.0
Capital Outlay - Office Buildings	0	62,337	62,337	0.0
Capital Outlay - Specialty Buildings	54,742	119,909	65,167	119.0
Capital Outlay - Transportation Projects	4,545,306	5,589,211	1,043,905	23.0
Unclassified	45,686	31,000	-14,686	-32.1
Total	\$11,218,721	\$12,759,798	\$1,541,077	13.7

Expenditure by Fund Type (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
General Fund	\$2,642,668	\$1,558,396	-\$1,084,272	-41.0
Federal Trust Fund	3,484,477	\$4,054,454	569,977	16.4
Proposition 1B Bond Funds	523,000	\$1,491,750	968,750	185.2
Special Funds	3,470,769	4,457,280	986,511	28.4
Reimbursements	1,097,807	1,197,918	100,111	9.1
Total	\$11,218,721	\$12,759,798	\$1,541,077	13.7

Transportation Finance Issues**Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B)**

Prop 1B provides for a general obligation bond issue not to exceed \$19.925 billion. The budget includes appropriations totaling \$7.685 billion in Prop 1B bond funds, although only \$2.789 billion is expected to be allocated, or committed, in 2007-08. Additionally, the Administration will be requesting a supplementary appropriation of \$523 million to support Prop 1B allocations in 2006-07. Dollars below are in thousands.

Proposition 1B Category	2006-07 Allocations	2007-08 Allocations	2007-08 Appropriations	Total 1B Amount	Budget
Corridor Mobility Improvement Account (CMIA)	\$100,000	\$317,000	\$2,119,000	\$4,500,000	Caltrans
Transit	0	600,000	1,300,000	3,600,000	State Trans Assistance
State Transportation Improvement Program (STIP)	262,000	340,000	1,035,000	2,000,000	Caltrans
Local Streets & Roads	0	600,000	1,050,000	2,000,000	Shared Revenues
Trade Infrastructure	15,000	170,000	680,000	2,000,000	Caltrans
State Highway Operations and Preservation Program (SHOPP)	141,000	403,000	518,000	750,000	Caltrans
State/Local Partnership	0	170,000	502,000	1,000,000	Caltrans
Grade Separations	0	55,000	174,000	250,000	Caltrans
State Route 99 Improvements	0	28,000	171,000	1,000,000	Caltrans
School Bus Retrofit	0	97,000	97,000	200,000	Air Resources Board
Local Bridge Seismic Retrofit	5,000	9,000	39,000	125,000	Caltrans
Intercity Rail*	0	0	0	400,000	na
Transit Security*	0	0	0	1,000,000	na
Trade Infrastructure Air Quality*	0	0	0	1,000,000	na
Port Security*	0	0	0	100,000	na
TOTAL	\$523,000	\$2,789,000	\$7,685,000	\$19,925,000	

* No appropriations are requested in the Governor's Budget for these programs – the Administration indicates it is still considering program implementation approaches. Spring Finance Letters may request funding for these programs.

While many past bond revenues have been continuously appropriated upon bond passage, Prop 1B funds require an appropriation by the Legislature to expend the funds. The Administration is requesting an appropriation level that will cover anticipated expenditures through 2009-10. That means that the Administration would not have to come forward with a Prop 1B appropriation request in either the 2008-09 or 2009-10 budgets. Alternatively, the Legislature could decide to appropriate only the amount necessary for 2007-08 expenditures, or appropriate all \$19.9 billion in Prop 1B bond funds this year. The Administration indicates it will also submit budget trailer bill language for Prop 1B programs.

The Governor's revised Strategic Growth Plan includes a request for \$29.4 billion of new general obligation bonds and \$13.9 billion of additional lease-revenue and self-liquidating revenue bonds for the 2008 and 2001 ballots in the areas of education, public safety, and other infrastructure. No additional transportation-related bonding (beyond that already authorized by Prop 1B) is included in the Governor's Strategic Growth Plan.

Shift Public Transportation Account Revenues to Pay General Fund Obligations

The Governor proposes to shift \$1.1 billion in Public Transportation Account (PTA) funds to pay the following State obligations, which are currently the responsibility of the General Fund:

- \$627 million for Home-to-School Transportation (currently Proposition 98).
- \$340 million for transportation-related general obligation bond debt.
- \$144 million for regional center transportation budgeted in the Department of Developmental Services.

The PTA will receive an estimated \$617 million in “spillover” funds in 2007-08 – up from the revised estimate of \$549 million for 2006-07. The proposed shift would exceed the 2007-08 amount of the volatile spillover revenues, which have materialized in recent years due to high gasoline prices. The Administration indicates this shift will not have a major impact, in the short-term, on transit capital projects because of bond and other funding resources. However, the proposal does represent a reduction in what local transit agencies would otherwise receive for operations in 2007-08, and would, over the long-term, reduce funding available for mass transit capital projects through the State Transportation Improvement Program (STIP). The Administration indicates they intend to permanently redirect spillover funds to pay current General Fund obligations. Based on a similar proposal by the Administration in May 2006, spillover revenue over the next ten years may sum to around \$4 billion.

Public Transportation Account “Spillover” Background

The spillover transfer dates back to legislation enacted in the early 1970’s. Chapter 1400, Statutes of 1971, relinquished 0.25 percentage points of the State’s four percent sales tax to local governments to fund transportation development (primarily mass transit). To hold the General Fund harmless, the tax base was broadened to include gasoline. The legislation further provided a mechanism to assure that the General Fund would not benefit as a result of the broadened tax base – this “spillover” formula transfers any net General Fund revenue gain to the Public Transportation Account (PTA). Half of this PTA transfer is then transferred to local transit agencies through the State Transit Assistance budget. The spillover only occurs in years when gasoline prices are high relative to the prices of other goods.

No spillover occurred during the period of 1994-95 through 2000-01, or in 2002-03; however, a spillover of \$11.3 million occurred in 2001-02. In recent years, spillover revenue has been triggered, but in some cases the revenue has been redirected.

- The 2003 Budget Act projected a spillover of \$87 million and associated trailer-bill legislation retained that amount in the General Fund (with any amount above \$87 million to be transferred to the Public Transportation Account). Actual spillover revenue turned out to be \$88.7 million.
- The 2004 Budget Act projected a spillover of \$140 million and trailer-bill legislation directed that amount to the Traffic Congestion Relief Fund as partial repayment of past loans to the General Fund (any excess spillover was retained by the General Fund). Actual spillover revenue turned out to be \$225.8 million.

- The 2005 Budget Act projected a spillover of \$380 million and trailer-bill legislation retained the full spillover in the General Fund. In part, this General Fund relief allowed for the first full Proposition 42 transfer in 2005-06. The revised estimate for spillover revenue is \$381 million.
- The 2006 Budget Act projected a spillover of \$668 million and trailer-bill legislation (SB 1132) directed the funding as follows:
 - \$200 million to the Transportation Deferred Investment Account as part of Proposition 42 loan repayment.
 - \$125 million to the Bay Area Toll Authority for the Bay Bridge Seismic Retrofit Project.
 - \$33 million for appropriations in the 2006 Budget Act (\$20 million for Agricultural Industries Transportation Services and \$13 million for the High-Speed Rail Authority)
 - 20 percent of the remainder (estimated at \$62 million) to Caltrans for mass transportation.
 - 80 percent of the remainder (estimated at \$248 million) to local transit agencies through the State Transit Assistance budget item.

The Department of Finance indicates the revised estimate for 2006-07 spillover is \$549 million (down \$119 million from the prior \$668 million projection).

Proposition 42

For 2007-08, the Governor proposes full Proposition 42 funding for transportation, which the Department of Finance estimates will be \$1.475 billion. As required by the Constitution, the funding would be allocated as follows:

- \$602 million for the Traffic Congestion Relief Program (TCRP).
- \$698 million for the State Transportation Improvement Program (STIP).
- \$88 million for the Public Transportation Account (PTA).
- \$88 million for State Transit Assistance to local agencies.

The “Proposition 42” transfer dates back to the Traffic Congestion Relief Program (TCRP), which was established with the 2000-01 budget (AB 2928, Torlakson) as a *six-year* funding program. Program funding comes from a portion of the sales tax on gasoline. When budget shortfalls in 2001-02 constrained the General Fund, the second-year funding for the program was delayed until 2003-04 and Proposition 42 was placed before voters to make the program permanent. As part of the 2001-02 budget, cities and counties received their “Prop 42” local streets and roads allocation from the State Highway Account (instead of the General Fund) in 2001-02 and 2002-03 and, in exchange, shifted their 2006-07 and 2007-08 allocations to the State – that is why the STIP receives a large allocation in 2007-08 and no funding is included for cities and counties. The Proposition 42 transfer was partially suspended in 2003-04 and fully suspended in 2004-05 (see the transportation loan section below). Full Proposition 42 transfers were made in 2005-06 and 2006-07.

Repayment of Past Transportation Loans

- Proposition 42 loans.** The 2003 Budget Act partially suspended the 2003-04 Proposition 42 transfer with \$289 million transferred and \$868 million suspended. The 2004 Budget Act fully suspended the 2004-05 Proposition 42 transfer of \$1.258 billion. Budget trailer bill language designated both of these suspensions as loans and required repayment by June 30, 2009. Full Proposition 42 transfers were made in 2005-06 and 2006-07. The 2006 Budget Act included early loan repayments totaling \$1.42 billion for the 2003-04 and 2004-05 Proposition 42 suspensions. Proposition 1A was placed on the November 2006 ballot, which requires, among other provisions, repayment of the outstanding Proposition 42 loans in minimum annual payments of one-tenth the total amount due. The chart below indicates approximately \$711 million remains outstanding, but this figure may be closer to \$750 million when interest is included. Consistent with the Proposition 1A minimum repayment requirements, \$83 million (from the General Fund) is proposed for repayment in 2007-08.
- Traffic Congestion Relief Fund loans / Tribal Gaming Bonds.** The 2001 Budget Act, the 2002 Budget Act, and legislation enacting the 2002-03 mid-year budget revision, loaned a total of \$1.383 billion from the Traffic Congestion Relief Fund to the General Fund. \$334 million of this loan was repaid at the end of 2005-06. The 2006 Budget Act assumed \$827 million in tribal gaming bonds would successfully be sold in 2006-07 to partially repay the outstanding amount. Lawsuits have delayed the issuance of the bonds for more than two years. The Governor's Budget assumes the bonds will *not* be successfully sold in either 2006-07 or 2007-08. Absent a bond sale, the Administration intends to use existing statutory authority to transfer \$100 million in annual tribal gaming revenues to repay a portion of the loan in both the current year and budget year. This would leave about \$850 million outstanding after 2007-08. The repayment of loans to the Traffic Congestion Relief Fund supports secondary loan repayments from that fund to both the State Highway Account and the Public Transportation Account.

Summary of Transportation Loans to the General Fund

Transportation Loans to the General Fund (in thousands) *	Loan Amount	Amount repaid through 2006-07	Repayment in Proposed Budget (2007-08)	Outstanding amount (after 2007-08) *	Proposition 1A Due Date
► Traffic Congestion Relief Fund loans (from 2001-02 & 2002-03)	\$1,383,000	\$434,000	\$100,000	\$849,000	none
► 2003-04 Propositions 42 loan	868,000	495,000	43,500	329,500	June 30, 2016
► 2004-05 Proposition 42 loan	1,258,000	920,000	39,500	298,500	June 30, 2016
Total	\$3,509,000	\$1,849,000	\$183,000	\$1,477,000	

* Interest is required for portions of the loaned amount, but not included in these calculations

- **Secondary Transportation Loans / Transfers.** In 2000-01 through 2002-03, a total of \$563 million was loaned from the State Highway Account (SHA) to the Traffic Congestion Relief Fund (TCRF), and a total of \$275 million was loaned from the Public Transportation Account (PTA) to the TCRF, both for TCRF cash flow purposes. With the proposed repayment for 2007-08, approximately \$102 million would remain outstanding to the SHA and approximately \$265 million would remain outstanding to the PTA. These outstanding amounts will be repaid as tribal gaming revenues provide payment to the Traffic Congestion Relief Fund. After 2006-07 Proposition 42 loan repayments, all outstanding amounts are due to the TCRF (about \$627 million, excluding interest), except for \$1 million still due to the PTA.

Non-Article XIX Funding

The Administration proposes to amend statute to permanently retain approximately \$85 million in annual miscellaneous revenues, which are not subject to the expenditure restrictions in Article XIX of the Constitution, in the State Highway Account (SHA) instead of transferring these revenues to the Public Transportation Account (as specified by Section 183.1 of the Streets and Highways Code). This miscellaneous revenue is primarily derived from the rental and sale of Caltrans property originally purchased for highway purposes. Because the revenue is not restricted by Article XIX, it can be expended for either highway or mass transportation purposes. Prior to 2000-01, and the addition of Section 183.1, the funding was retained in the SHA. Since 2000-01, the funding has been transferred to the PTA, except in 2003-04 and 2004-05 when the funding was retained in the SHA by budget bill language.

Caltrans Budget Proposals

Highway Maintenance Funding. The Administration requests a permanent increase of \$85 million and a one-time increase of \$100 million for highway infrastructure preservation (for a combined total request of \$185 million). The permanent increase of \$85 million would be budgeted in the Maintenance Program, and the one-time increase of \$100 million would be budgeted in the State Highway Operations and Protection Program (SHOPP). In last year's budget request for 2006-07, the Administration requested an ongoing highway preservation increase of \$105 million – the Legislature approved the funding, but shifted the funding from the SHOPP to the Maintenance Program, which is where the funding has historically been budgeted. The Legislature may want to similarly review the nature of the SHOPP projects anticipated for the \$100 million to determine if the Maintenance Program would be a more appropriate home for the funding. Pursuant to Section 164.6 of the Streets and Highways Code, the Department is required to present to the Legislature a five-year maintenance plan no later than January 31, 2007. This report should assist the Legislature in its review of the budget request.

Environmental Mandates. The Administration submitted two budget requests related to environmental mandates.

- Budget Change Proposal #2B requests \$1.4 million (annually for five years) to purchase alternative fuel fleet equipment to comply with ongoing federal, State, and local air quality mandates.

- Budget Change Proposal #8 requests \$11.8 million in 2007-08 to comply with two air quality mandates adopted by the California Air Resources Board (ARB). The cost varies each year, but over five years is estimated at \$27.8 million. Funding would allow for the purchase of exhaust filter traps for heavy-duty trucks and the replacement of portable engines and other equipment.

Public Safety Radio. The Department requests funding of \$7.2 million in 2007-08 and a total of \$19.6 million over five years, to convert the low band radio systems concentrated in the mountainous regions of District 10 (east of Stockton) to a high band system. The Department indicates that most Caltrans Districts (3, 4, 6, 7, 8, 9, 11, and 12) currently operate on high band. The Budget Change Proposal does not address the Administration's plans for other Districts that operate with low band. Last year the Legislature added Section 8592.7 to the Government Code, which requires the following:

- (a) A budget proposal submitted by a state agency for support of a new or modified radio system shall be accompanied by a technical project plan that includes all of the following:*
 - (1) The scope of the project.*
 - (2) Alternatives considered.*
 - (3) Justification for the proposed solution.*
 - (4) A project implementation plan.*
 - (5) A proposed timeline.*
 - (6) Estimated costs by fiscal year.*
- (b) The committee shall review the plans submitted pursuant to subdivision (a) for consistency with the statewide integrated public safety communications strategic plan included in the annual report required pursuant to Section 8892.6.*
- (c) The Telecommunications Division of the Department of General Services shall review the plans submitted pursuant to subdivision (a) for consistency with the technical requirements of the statewide integrated public safety communication strategic plan included in the annual report required pursuant to Section 8592.6.*

The Budget Change Proposal does mention Department of General Services participation in the project, but it is not explicit concerning whether the requirements of subsections (b) and (c) have been met. The submitted document does touch on each of the requirements of subsection (a), but the depth and breadth of the material would not seem to constitute a "technical project plan."

Intelligent Transportation System. The Administration submitted three budget requests related to Intelligent Transportation Systems (ITS). ITS includes loop detectors that monitor freeway speed, changeable message signs, highway advisory radio, metering lights, and freeway cameras. These technologies communicate traffic conditions to drivers and reduce congestion.

- Budget Change Proposal #13 requests \$1.2 million in 2007-08 and \$1.1 million in 2008-09 to fund a two-year pilot project that will determine the effectiveness of purchasing real-time traffic data from private vendors. The private vendors would supply traffic speed information from Automatic Vehicle Location technologies, cellular signals, and/or other technologies. If this technology is viable, it may result in cost saving and traffic-congestion reduction because freeway loop detectors would no longer need to be installed and maintained.

- Budget Change Proposal #14 requests \$9.7 million (ongoing) and 40 positions in the Maintenance Program to increase maintenance and repair of new Intelligent Transportation System (ITS) field elements. The Department indicates that the number of traffic signals and ramp meters has increased by approximately 600 since positions were last increased in 1999, and ITS elements have increased by 2,400 units.
- Budget Change Proposal #15 requests \$1.5 million (ongoing) and 15 positions in the Highway Operations Program to increase operational support of the increasing number of Intelligent Transportation System (ITS) field elements. The Department indicates that the number of field elements has increased by 3,294 (225 percent) since the last staff increase for this purpose in 1997.

Specialty Building Facilities. The Administration requests an appropriation of \$119.9 million in 2007-08 for specialty building facilities such as equipment facilities, maintenance facilities, material labs, and traffic management centers. This is an increase of \$65.2 million, or 120 percent from the amount appropriated in 2006-07.

Oakland District Office Building Seismic Retrofit. Last year the Legislature approved a funding request of \$44.3 million for the construction phase of the seismic retrofit of the District 4 office building in Oakland. Based on bids received, the Administration now indicates the cost of the project has increased by \$18 million – to \$62.3 million. The Department requests a reversion of last year’s funding, and a new appropriation of \$62.3 million for the project.

2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The total cost to build the entire system was most-recently estimated at \$37 billion.

The Governor proposes \$1.2 million and 6.5 positions for the HSRA, a decrease of \$13.2 million and no change in positions. Last year the Legislature augmented the HSRA budget by \$13 million and 3 positions to: (1) complete the draft environmental impact report for the Central Valley to San Francisco Bay Area route; (2) complete a financing plan to be submitted to the Legislature no later than May 1, 2007; and (3) commence site-specific environmental work, right-of-way acquisition, and identification of necessary grade separations to improve and preserve rail corridors. Current law provides for a proposition on the November 2008 ballot to provide \$9.95 billion in general obligation bonds for the high-speed rail and related rail projects; however, the Governor proposes to delay this bond vote indefinitely.

2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state’s highway system. The CHP also has responsibilities relating to vehicle theft

prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for State employees and property.

The Governor proposes \$1.831 billion in total expenditures (no General Fund) and 11,012 positions for the CHP, an increase of \$150.1 million (9 percent) and 325.7 positions.

Major Budget Proposals

Enhanced Radio System. The budget includes \$51.4 million for the 2007-08 cost of upgrading the CHP's public safety radio system. Last year the Legislature approved this five-year project that has total costs of \$494 million. The project will enhance radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations. As part of last year's project approval, the Legislature required annual project reporting for the life of the project – the first report is due March 1, 2007.

Officer Staffing Augmentation. The Governor requests \$17.5 million (\$21 million ongoing) to add 50 uniformed positions and 41 support staff. Last year, the Legislature approved a staffing increase of 310 positions (240 Officers and 70 supervisory and non-uniformed support staff) to be phased in over two years (the 2007-08 phase added 75 Officers). The CHP indicates this increase would help address the continual increase in workload associated with population growth throughout the state.

Office of Internal Affairs. The Governor requests \$952,000 in reimbursement authority and 5.0 two-year limited-term positions to respond to the unfunded workload brought about by requests for investigative services from outside agencies. The Department indicates state departments frequently call upon the CHP to conduct independent reviews and investigations. Investigations are normally approved by the Business, Transportation and Housing Agency and the Governor's Office. The external investigations can consume up to 85 percent of the Investigation Unit's resources and in these cases leave minimal resources for internal investigations.

Motor Carrier Safety Program. The Governor requests a permanent increase of \$4.8 million to augment staffing 67.9 positions (60 Motor Carrier Specialists and 11.5 support positions). The Administration indicates this will allow the Department to complete 100 percent of the Biennial Inspection of Terminals (BIT), instead of the current 58 percent inspection rate. Motor Carrier Specialists visit terminals to: (1) inspect maintenance and inspection reports for buses and trucks; (2) inspect a sample of required driver records; and (3) investigate hazardous materials handling practices. The Department indicates that statute requires fees to be set at a level to fund the program; however, currently the Motor Vehicle Account (MVA) funds \$2.1 million of the cost and the requested augmentation would be funded exclusively through the MVA.

Capital Outlay. The Administration requests an augmentation of \$8.1 million for three major capital outlay facilities projects – two projects are in the working-drawings phase (Oceanside Area Office [\$1.1 million] and Oakhurst Area Office [\$636,000]) and would likely come forward with construction funding requests in 2008-09 totaling about \$21 million; a third project is in the construction phase (San Diego Area Office [\$6.2 million]) and involves the renovation of an existing office.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

The Governor proposes total expenditures of \$902.8 million (no General Fund) and 8,280.1 positions, an increase of \$19.2 million (2 percent) and a decrease of 24.1 positions.

Budget Proposals

Information Technology Modernization Project. The Administration requests 2007-08 funding of \$23.9 million and 25 positions to continue with the Information Technology Modernization Project. Last year, the Legislature approved funding of \$2.1 million and 5 positions for the first year of this seven-year \$242 million project.

Credit Card Processing Fees. The Administration requests an augmentation of \$11.4 million in 2007-08 and \$12.7 million in 2008-09 to continue the payment of credit and debit card processing fees. In 2005-06 the Legislature approved two-year limited-term funding for DMV to pay these processing fees. At times in the past, the DMV has charged customers "convenience fees" to cover the cost of processing fees. Funding was provided in 2005-06 to eliminate these convenience fees to encourage customers to pay with a credit cards and reduce visits to DMV offices.

Facility Support Projects. The Administration requests 2007-08 funding of \$9.6 million (\$4.7 million ongoing) to remove non-public programs out of field offices and into stand-alone leased facilities or consolidated leased facilities. The DMV indicates these changes would reduce overcrowding in field offices, and also be beneficial in addressing a surge in visits that would accompany the implementation of Real ID (see the Real ID discussion below).

Headquarters Seismic Retrofit / Asbestos Abatement Project. The Administration requests \$84.6 million to complete the reconstruction of the Sacramento headquarters building. Last year the Legislature approved \$2.2 million for working drawings and the construction phase of the project was estimated at \$50 million. The construction phase of the project is now estimated at \$82 million.

Major Issue

Federal REAL ID Act. On May 11, 2005, President Bush signed H.R. 1268, which includes the Real ID Act of 2005. Regulations from the federal government on the implementation of this law have been delayed and are now expected in April or even later this year. Last year, the DMV estimated implementation of Real ID may cost the State \$500 million to \$750 million. It will also cause inconvenience for California driver's license holders, because most people will have to go to a DMV location to re-verify their identity. Real ID requires people without a passport to have a compliant driver's license or identification card by May of 2008 in order to enter a federal building or cross an airport checkpoint. No federal funds have been provided to California for Real ID. The Administration did not submit any 2007-08 budget requests related to Real ID, although spring Finance Letters may request budget changes.

PUBLIC EMPLOYMENT & RETIREMENT

1880 State Personnel Board

The State Personnel Board (SPB) is responsible for California's civil service system. The SPB provides a variety of recruitment, selection, classification, goal setting, training and consultation services to State departments and local agencies. The Board is composed of five members, who are appointed by the Governor, and serve 10-year terms.

The Governor proposes expenditures of \$23.9 million (\$5.5 million General Fund) and 161.3 positions – an increase of \$1.7 million and 24.7 positions.

Major Budget Proposals

Information Technology (IT) Classification Reform. The Governor requests \$571,000 (General Fund) and four positions to administer the selection phase for the new IT classifications. Last year, the Legislature approved funding of \$640,000 in the Department of Personnel Administration's budget to develop an IT classification and reform plan.

Centralized Internship Program. The Governor requests \$482,000 (reimbursements) and three positions to begin implementation of a centralized internship program for college students. The program would begin by placing science and engineering students within the California Environmental Protection Agency, but would eventually expand to other student majors and State departments. The Administration indicates that this is motivated by the surge in retirements that the State is expecting over the next five years.

FI\$CAL Positions: The Governor proposes \$794,000 (reimbursements) and nine positions to implement SPB's portion of the Financial Information System for California (FI\$CAL) information technology project, which would be coordinated by the Department of Finance.

1900 Public Employees' Retirement System

The Public Employees' Retirement System (PERS) provides benefits to about one million active and inactive members and about 441,000 retirees. PERS membership is divided approximately in thirds among current and retired employees of the State, schools, and participating public agencies. The Constitution grants the PERS Board "plenary authority and fiduciary responsibility for investments of moneys and administration of the system" as specified. PERS sets the State's retirement and healthcare contribution levels – consistent with union contracts negotiated by the Governor and approved by the Legislature, and vested benefits. This budget item shows PERS benefit and administrative expenditures. State retirement contributions for current employees are built into individual department budgets and Control Section 3.60 (see also the "Control Section 3.60" summary later in this section). State funding for 2007-08 Health and Dental Benefits for Annuitants is Budget Item 9650 (See also the "9650 Health and Dental Benefits for Annuitants" summary later in this section).

The PERS Board adopted a 2007-08 budget that anticipates benefit and administrative expenditures of \$13.6 billion (and 1,954 positions) – up \$1.2 billion (and 1.9 positions) from 2006-07. Administration is relatively unchanged, so this increase is due to increased benefit

costs. The State's retirement contribution for current employees is estimated at \$2.7 billion (including \$1.5 billion General Fund) – an increase of \$80 million (including a \$44 million General Fund increase) relative to 2006-07. The State's 2007-08 cost for health and dental benefits for annuitants is estimated at \$1.1 billion General Fund – an increase of \$38 million (note, the General Fund is partially reimbursed by special funds after the budget is enacted). The State's retirement contribution and annuitant health and dental contribution will be re-estimated by PERS around the time of the May Revision and the budgeted amounts will be adjusted at that time.

Highlights

Health Care Decision Support System Innovative Progress Project. PERS requests \$3.3 million in 2007-08 and \$3.7 million in 2008-09 from the Public Employees' Contingency Reserve Fund to proceed with a competitive re-procurement for this health care data. This request would continue the practice of PERS contracting with a vendor to collect health-related data feeds from health plans and provide analytical tools to access, manipulate, and report on the data. Most PERS funds are continuously appropriated, but some health-related activities are appropriated in the Budget Act and Budget Change Proposals are submitted by the Department. Note, the special authority provided to PERS by the Constitution does not extend to the component of the Health Benefits Program funded from the Public Employees' Contingency Reserve Fund.

1920 State Teachers' Retirement System

The State Teachers' Retirement System (STRS) provides retirement-related benefits and services to approximately 795,000 active and retired educators from public schools from kindergarten through the community college system. This budget item shows STRS benefit and administrative expenditures. General Fund support for STRS is reflected as a "non-add" in the STRS budget, and is formally budgeted in Item 6300 – in the education section of the budget.

The STRS Board adopted a 2007-08 budget that anticipates benefit and administrative expenditures of \$8.5 billion (and 777.2 positions) – up \$774 million (and 60.5 positions) from 2006-07. Administration, including services to members and employers, is up about \$12 million, and benefit costs are up about \$761 million. In the 6300 Budget Item, the Governor is proposing \$1.048 billion (General Fund) in State contributions to STRS – up from the \$959 million provided in 2006-07. Note: 2006-07 funding included a one-time reduction of \$120 million that related to a past accounting adjustment.

Highlights

Reduction in Purchasing-Power-Protection Contribution. The proposed budget reduces the purchasing-power-protection State contribution from 2.5 percent of salary to 2.2 percent – for an annual savings of about \$75 million. The Administration indicates this contribution level is sufficient to maintain the existing benefit based on a 2005 actuarial analysis. Additionally, the Administration proposes to vest this benefit at the current 80-percent of purchasing-power protection. No change is proposed for the current-law State base contribution of 2.017 percent of teacher salary, which is separate from the purchasing-power-protection amount. In total, the Administration proposes State funding of \$1.048 billion for STRS: \$547 million for purchasing-

power protection (also called “Supplemental Benefit Maintenance”); and \$501 million for the base 2.017 percent contribution.

8380 Department of Personnel Administration

The Department of Personnel Administration (DPA) represents the Governor as the “employer” in all matters concerning the State workforce. The Department is responsible for all issues related to salaries, benefits, position classification, and training. For rank and file employees, these matters are determined through the collective bargaining process and for excluded employees, through a meet and confer process.

The Governor proposes expenditures of \$93.6 million (\$33.7 million General Fund) and 233 positions for DPA – an increase of \$1.8 million and 16.6 positions.

Highlights

Savings Plus Program. The Governor requests \$928,000 (special fund) to fund increased costs for the Third Party Administrator and external auditors for the Savings Plus Program and the Alternative Retirement Program.

FI\$CAL Positions: The Governor proposes \$1.1 million (reimbursements) and 11.5 positions to implement DPA’s portion of the Financial Information System for California (FI\$CAL) information technology project, which would be coordinated by the Department of Finance.

9650 Health and Dental Benefits for Annuitants

This budget item provides funding for health and dental benefit services for retired state employees and their dependents. The California Public Employees’ Retirement System (PERS) negotiates health care rates with providers and these future negotiations will affect the final cost to the State. A revised cost number should be available about the time of the May Revision. This funding covers 2007-08 costs, and does not provide money to begin pre-funding retirement health costs for current State employees.

Budget Item 9650 includes \$1.057 billion (\$1.019 billion General Fund) for Health and Dental Benefits for Annuitants – an increase of \$38.0 million (note, the General Fund is partially reimbursed by special funds after the budget is enacted). In past years, the funding for this item was based on a forecast of budget-year costs. This year, the budget-year amount is the sum of current-year costs and the Medicare Part D subsidy (see also Medicare Part D discussion below).

Issues

Medicare Part D. PERS is expected to annually receive approximately \$38 million in federal subsidies from the Medicare Part-D drug program. The Administration proposes to use these subsidies to supplant a portion of the General Fund cost for Health and Dental Benefits for Annuitants beginning in 2007-08.

GASB 45. Government Accounting Standards Board Statement 45 (GASB 45) requires government financial reports to quantify the unfunded liabilities associated with retiree health benefits. Last year, the Legislative Analyst estimated the State liability may be in the range of \$40 billion to \$70 billion; and the annual cost to fully pre-fund this benefit over 30 years may be in the range of \$6 billion. No money is proposed for pre-funding health benefits in 2007-08; however, Executive Order S-25-06 signed on December 28, 2006, created the Public Employee Post-Employment Benefits Commission to examine unfunded retirement benefits.

9800 Employee Compensation

Base employee-compensation funding is included in individual department budgets. Budget Item 9800 appropriates funding for 2007-08 cost increases associated with existing bargaining agreements and cost increases for excluded employees. For example, many units have contracts that provide for a cost-of-living increase on July 1, 2007, the estimated cost of this increase is included in this item. Additionally, other new costs, such as employee compensation costs that result from a court order, may be included in this item.

Budget Item 9800 is proposed at \$972 million (\$468 million General Fund). Included in this amount is a funding request of \$22.7 million (\$20.8 million General Fund) to increase salaries for specified medical classifications at the Department of Developmental Services, the Department of Veterans' Affairs, and the Department of Mental Health, to bring pay in those classifications within 18 percent of the court-ordered salary for the same classifications in the Department of Corrections and Rehabilitation – the court order relates to the *Plata v. Schwarzenegger* lawsuit. No funds are set aside to pay for any potential costs related to a new agreement with Bargaining Unit 6, which represents Corrections' Officers. Unit 6 is the only unit currently working with an expired contract.

Control Section 3.60 State Retirement Contribution

This control section specifies retirement contribution rates for 2007-08 and provides authority to the Director of Finance to adjust appropriations to conform to these rates. The actual retirement rates are set by the California Public Employees' Retirement System (PERS). State costs for 2007-08 are estimated at \$2.8 billion (including \$1.5 billion General Fund) – an increase of \$80 million (including a \$44 million General Fund increase) relative to 2006-07. PERS generally updates these rates at the time of the May Revision.

STATE ADMINISTRATION

LEGISLATIVE / EXECUTIVE

This section includes the budgets of constitutional officers, the Legislature, agency secretaries, general government departments and budget items, and budget control sections.

0502 Office of the Chief Information Officer

The Administration requests 49 positions and \$7.8 million (Department of Technology Services Revolving Fund) to establish a centralized information technology (IT) management department and ensure that project specific activities are coordinated with other departments and reflect the state's policies and direction for information technology development.

This request is based on the passage of Chapter 533, Statutes of 2006 (SB 834, Figueroa), which established an Office of the Chief Information Officer (OCIO) and prescribed duties including: (1) advising the Governor on IT issues; (2) minimizing overlap and redundancy of state IT operations; (3) coordinating the activities of agency information officers; (4) advancing organizational maturity and capacity in IT management; and (5) establishing performance measures for IT systems and services.

According to the bill author's office, "Though the state has a chief information officer, it is not a statutory position, but a designation given to one of the governor's employees, thus the CIO has no specific authority. The author indicates that experts, both inside and outside of state government, have been calling for the establishment of a statutory CIO."

The OCIO would incorporate the project oversight and review function of the Department of Finance's Office of Technology Review, Oversight, and Security (OTROS). (Information security components also now housed in the Department of Finance would shift to the State and Consumer Services Agency.) Twenty-six positions in OTROS would move to the new Office of the Chief Information Officer to continue the project oversight and review activities.

The Budget Subcommittee will seek assurances that a centralized department, enterprise-wide purchasing approach—the contracting methodology adopted with the ill-fated Oracle contract, resulting in the disestablishment of the Department of Information Technology—will not again lead to poor IT contract decisions.

The fiscal analysis of SB 834, provided a legislative fiscal committee, characterizes the expense for the OCIO as "currently funded" and "absorbable." The Budget Subcommittee will want the Administration to explain why the OCIO should be funded at \$7.8 million and nearly 50 positions above what statute intended. Further, the Budget Subcommittee will want to

understand why this level of proposed authority shouldn't again receive the full scrutiny of policy committees.

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Administration with legislative analysis and planning, policy research, and liaison with local governments. The OPR also oversees programs for small business advocacy, rural policy, and environmental justice. In addition, the office has responsibilities pertaining to state planning, California Environmental Quality Act assistance, environmental and federal project review procedures, and overseeing the California Service Corps.

The Governor's budget funds 91.3 positions (including 19 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$10,263	\$10,436	\$173	1.7%
Federal Trust Fund	38,312	38,405	93	0.2
Reimbursements	2,217	3408	1,191	53.7
Total	\$50,792	\$52,249	\$1,457	2.9%

Highlights

Tribal Consultations and Guidelines. The OPR requests \$195,000 General Fund to continue training and outreach to tribal governments and updating the state's *General Plan Guidelines*, utilized by communities throughout California when updating their general plans. The request includes a one year extension of a Senior Planner position for tribal support, established for two years limited-term in the 2005 Budget Act. Pursuant to Chapter 905, Statutes of 2004 (SB 18), the OPR were directed to develop consultation guidelines for local governments and tribes in order to encourage protection of Native American lands.

Office of the Small Business Advocate. The OPR requests \$234,000 General Fund and two positions to fund the Office of the California Small Business Advocate (CSBA). Prior to the disestablishment of the Office of Trade and Commerce in 2002, functions of the Office of the CSBA was transferred to the OPR. The OPR has performed the duties of the CSBA over the last five years by periodically establishing a CSBA and funding it from existing resources. However, the OPR believes that 2006 legislation adding new responsibilities for the CSBA to study the effects of state regulation on small businesses and to develop an emergency preparedness handbook necessitates ongoing funding.

Homeland Security Grant Program. The OPR's California Service Corps requests \$3 million in federal fund reimbursements from the State Homeland Security Grant Program in order to enhance local communities' emergency response through training, outreach, and other volunteer

service opportunities. The Administration has designated the California Service Corps to administer the federal Citizen Corps Program and coordinate volunteers in the event of an emergency.

0690 Office of Emergency Services

The primary purpose of the Office of Emergency Services (OES) is the coordination of emergency activities to save lives and reduce property losses during disasters and to expedite recovery from the effects of disasters. During an emergency, the OES functions as the Governor's immediate staff to coordinate the state's responsibilities under the Emergency Services Act and applicable federal statutes. It also acts as the conduit for federal assistance through natural disaster grants and federal agency support. Additionally, the Office of Homeland Security (OHS) develops, maintains, and implements a statewide comprehensive homeland security strategy to prevent terrorist attacks within the state, reduce the state's vulnerability to terrorism, minimize damage from attacks that may occur, and facilitate the recovery effort. The OHS also serves as the state administering agency for federal homeland security grants and the state's primary liaison with the U.S. Department of Homeland Security.

The budget proposes total expenditures of \$1.3 billion, an increase of \$1.1 million or less than one percent from estimated current year expenditures. General Fund expenditures are anticipated to be \$184.8 million in 2007-08, an increase of \$5.3 million or approximately three percent above revised current year expenditures.

Summary of Programs				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Support of Office of Homeland Security	\$340,020	\$346,305	\$6,285	1.8
Mutual Aid Response	17,173	17,449	276	1.6
Plans and Preparedness	36,968	40,152	3,184	8.6
Disaster Assistance	640,965	643,404	2,439	0.4
Criminal Justice Projects	230,719	218,918	-11,801	-5.1
California Anti-Terrorism Info Center	6,811	6,912	101	1.5
Executive and Administration	7,850	8,489	639	8.1
Distributed Administration	(6,779)	(6,828)	-49	-0.7
Support of Other State Agencies	22,000	22,000	--	0.0
Total	\$1,295,727	\$1,296,801	\$1,074	0.08

Summary of Expenditures (dollars in thousands)				%
	2006-07	2007-08	\$ Change	Change
<i>State Operations</i>				
General Fund	\$46,785	\$52,606	\$5,821	12.4
Federal Funds	64,893	68,091	3,198	4.9
Reimbursements	2,671	2,671	0	0.0
Other Funds	3,935	4,583	648	16.5
Subtotal, State Operations	\$118,284	\$127,951	\$9,667	8.2
<i>Local Assistance</i>				
General Fund	\$132,660	\$132,167	-\$493	-0.4
Federal Funds	1,019,270	1,011,996	-7,274	-0.7
Reimbursements	5,571	--	-5,571	-100.0
Other Funds	19,942	24,687	3,455	23.8
Subtotal, Local Assistance	\$1,177,443	\$1,168,850	-8,593	-0.7
Total	\$1,295,727	\$1,296,801	\$1,074	0.1

Highlights and Issues

Response and Recovery Division Workload Increase. The budget includes \$1.2 million (\$608,000 General Fund) and 14 positions to eliminate a significant backlog of disaster assistance claims and provide improved service to local governments and disaster victims.

Fiscal Administration Best Practices. The budget provides \$573,000 General Fund and 9 positions to address the need for better fiscal administration, as identified by the Office of State Audits and Evaluations, the Little Hoover Commission, and other state oversight agencies.

Antiterrorism Funds. The budget proposes \$5 million from the Antiterrorism Fund to fund a new program to establish the California Port Security Grant Program. This program is intended to provide regional preparedness grants to assist ports in preparing for, responding to, and mitigating potential acts of terrorism by implementing a transportation worker identification program. The Antiterrorism Fund was created by Chapter 38, Statutes of 2002 (AB 1759, Wesson) following the terrorist attacks on September 11, 2001. The fund receives revenues from the California memorial license plates, which are estimated at \$1.3 million annually. Money from the Antiterrorism Fund has not been appropriated in past years, and the estimated available balance is \$5.4 million. The ongoing grant program would be \$1 million annually.

Independent Gap Analysis. The 2006 Budget Act requires the OES to contract for an independent gap analysis to assess the strengths and vulnerabilities of California's emergency preparedness system for catastrophic events and the projected costs to address specific roles and possible gaps in state, local, and federal government agencies' capacity to respond, including the areas of governance, interoperability, medical response and surge capacity, evacuation, and economic recovery, and shall consider the role of the private sector in support of government response. The report shall recommend specific funding and policy options to address the identified gaps. The gap analysis will measure the state's baseline emergency capability and

evaluate and quantify areas where systems, resources and organizations can be improved. The analysis is on schedule to be completed by August 1, 2007.

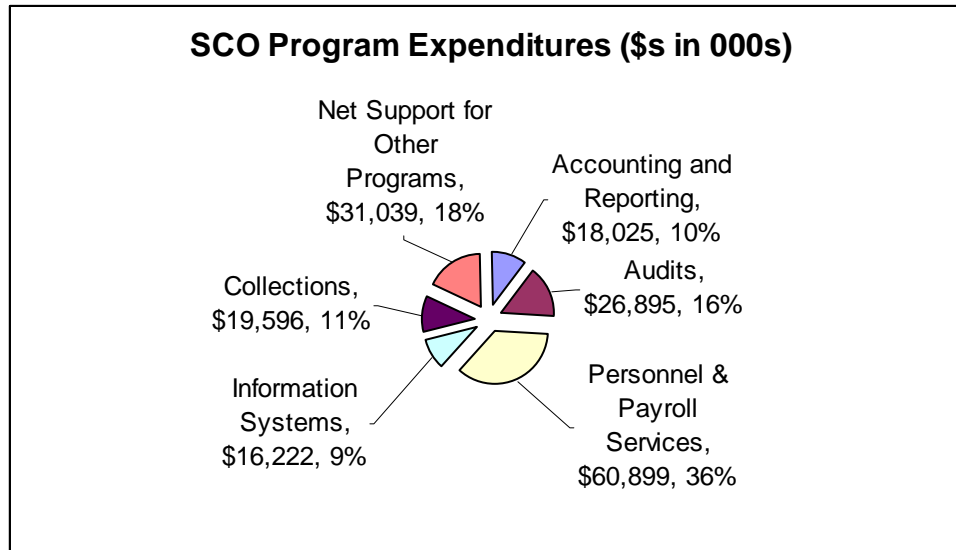
0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the unclaimed property law and property tax postponement programs.

The Governor's budget includes 1,234.5 positions (including 136 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$101,559	\$103,430	\$1,871	1.8%
Federal Trust Fund	1,346	1,394	48	3.6
Reimbursements	36,766	41,991	5,225	14.2
Other Funds	22,829	25,257	2,428	10.6
Total	\$162,500	\$172,072	\$9,572	5.9%

The chart below shows SCO expenditures by function:



Highlights

Human Resources Management System (HRMS)/21st Century Project. The State Controller's Office (SCO) requests an augmentation of \$38.3 million and 80.6 one-year limited-term positions to complete the system development phase of this project and begin rollout. This request constitutes the fourth year of funding in what is expected to be a six-year, \$140 million project.

This request is part of an ongoing multi-year project to replace existing employment history, payroll, leave accounting, and position control systems. The HRMS will also include a statewide time and attendance capability, greatly enhancing the Controller, Administration, and Legislature's fiscal oversight abilities. For example, it is expected that the system will eventually capture actual salary savings at each department, replacing the arbitrary five percent standard used statewide today.

Technology, Trade, and Commerce Program Staffing. The SCO requests \$90,000 General Fund to extend a limited-term position for two additional years in order to collect and account for loan debts due to the state from the former Technology, Trade, and Commerce Program. The SCO assumed all loans, grants, and encumbrances when the Technology, Trade & Commerce Agency (TT&C) was disestablished in 2003.

Clean-up of Contaminated Property in Stockton. The SCO requests \$1 million (Underground Storage Tank Cost Recovery Fund) to perform remediation on real property that has escheated to the state. The petroleum-contaminated parcel is located in Stockton's Central Business District and is owned by the State of California. The regional water quality control board recently met with the SCO and urged them to quickly mitigate the problem or face possible litigation.

Mandate Auditors: Conversion of Limited-Term to Permanent. The SCO requests \$999,000 to make 11 expiring limited-term positions permanent. In 2005-06 the Legislature augmented the SCO budget by \$996,000 and 11 positions to analyze older mandate cost claims

that were approaching the end of the statute of limitations for initiating claims audits. For every \$1 spent on these audit efforts, the mandate claim auditors have identified approximately \$17 in over claimed costs.

Apportionment Payment System. The SCO requests \$799,000 in fee revenues collected from various special funds to support ongoing maintenance and operation of the Apportionments Payment System (APS). Five positions would be funded by this assessment and a previously approved General Fund appropriation of \$62,000. The APS project was developed to fix a dangerously overburdened system that endangered timely distribution of apportionments to local agencies. Funding for this activity is provided through a statewide budget item, Control Section 25.50.

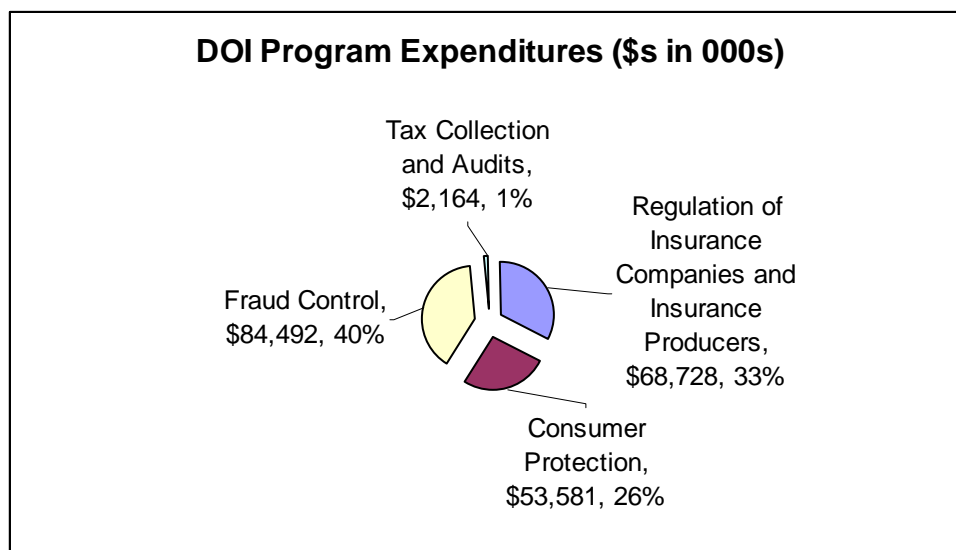
Salary Increase for Staff Management Auditors. The SCO requests \$224,000 (\$106,000 General Fund) to support a five percent salary increase for the Staff Management Auditor (Specialist), established in 2006-07 with Department of Personnel Administration approval. The SCO has experienced significant recruitment and retention problems because of unfavorable Staff Management Auditor salary comparisons between the SCO and other state and local agencies.

0845 Department of Insurance

Under the leadership of the state's Insurance Commissioner, the Department of Insurance regulates the largest insurance market in the United States with over \$118 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and those insurance companies are financially able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and combats insurance fraud.

The Governor's budget funds 1,263.4 positions (no new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)				
	2006-07	2007-08	\$ Change	% Change
Fund Source				
Insurance Fund	\$207,529	\$208,715	\$1,186	0.6%
Reimbursements	250	250	0	0.0
Total	\$207,779	\$208,965	\$1,186	0.6%



Highlights

Intervenors. The Department of Insurance proposes an increase of \$780,000 (Insurance Fund) ongoing for increased expenses associated with contracted “intervenors,” who act on behalf of consumers to resolve compensation claims conflicts with insurers. Intervenors may be compensated by either the Insurance Commissioner or a judge.

Upgrade of Legal Branch Positions. The Department of Insurance requests \$164,000 (Insurance Fund) to upgrade two Staff Counsel III positions to Staff Counsel IV positions and upgrade 23 Staff Counsel II positions to Staff Counsel III positions. The department believes that expanding scope of practice and retention issues necessitate these salary increases.

Automobile Insurance Fraud Program Spending Authority Increase. The Department of Insurance requests \$1.6 million (Insurance Fund) to distribute assessments collected from insurers to district attorneys to investigate and prosecute fraudulent automobile insurance claims. The department’s Automobile Insurance Fraud Program is funded by an annual fee of one dollar per insured vehicle, paid by California insurance companies.

Enterprise Information Portal. The Department of Insurance requests authority to redirect two positions and associated funding from the Regulation of Insurance Companies and Producers Program to the Administration Program to assist in the implementation of the Enterprise Information Portal. The Enterprise Information Portal, a computer system designed to aggregate multiple insurance data sources into a usable format, was established in 2005-06 with a \$2 million initial appropriation.

ISSUES

Increase to Local Assistance Workers’ Compensation Spending Authority. The Department of Insurance requests \$1.3 million (Insurance Fund) ongoing to fund increased investigations and prosecution of workers’ compensation fraud. This augmentation would raise the size of this annual subvention to local district attorneys to \$22.7 million (Insurance Fund). The need for an additional assessment on insurers for this activity was decided by the Governor-appointed Fraud Assessment Commission in December 2005.

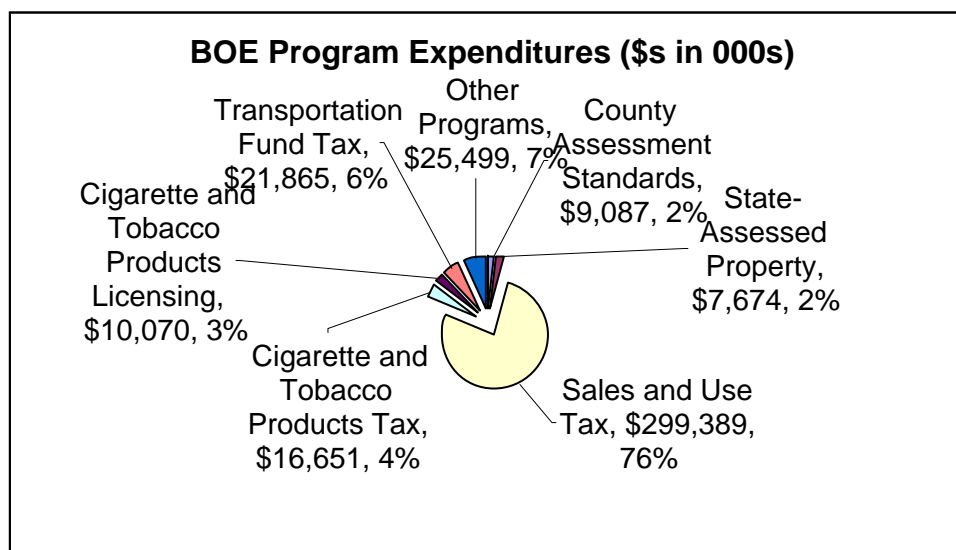
This issue was funded in the current year for one year only, based on the understanding that a separate workers' compensation fraud study would provide findings relevant to how the department combats workers' compensation fraud. The Budget Subcommittee will want to understand how those findings support this request.

0860 State Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board, and the Employment Development Department are the state's major tax collection agencies. The BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, and others. The BOE also assesses utility property for local property tax purposes, oversees the administration of local property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including Franchise Tax Board decisions under the personal income tax and bank and corporation tax laws.

The Governor's budget funds 3,800 positions (including 81 new positions) and budget expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$215,984	\$218,135	\$2,151	1.0%
Motor Vehicle Fuel Account	20,118	20,865	747	3.7
Federal Trust Fund	1,228	1,594	366	29.8
Reimbursements	115,334	117,351	2,017	1.7
Other Funds	31,656	32,290	634	2.0
Total	\$384,320	\$390,235	\$5,915	1.5%



Highlights

The Governor's budget includes several tax gap enforcement activities which altogether would generate \$12.5 million in new General Fund revenues.

Consumer Use Tax Section Revenue Enhancement. The Administration requests to make permanent six limited-term positions first established in 2005, at an ongoing cost of \$313,000 (\$203,000 General Fund). These positions will ensure collection of use tax in the compliance program for vehicles, vessels, and aircraft. Based on the last two years of program activity, the BOE anticipates annual revenues of \$4.3 million, a 14:1 benefit-cost ratio.

U.S. Customs Program Augmentation. The Administration requests 15.5 limited term positions, one permanent position, and \$1.1 million (\$696,000 General Fund) for the purpose of developing and investigating tax leads turned over by the U.S. Customs service. U.S. Customs electronic records tell the BOE where out-of-state imports were shipped in-state, information that can be compared to use tax payments. Based on the activity in this program over the last two years the BOE anticipates revenues of \$15.2 million to be generated, a 13:1 benefit-cost ratio.

Alcohol Beverage Tax Program Workload. The Administration requests two permanent positions and \$244,000 General Fund to restore resources for conducting field audits, collections, tax return processing, refunding and other tasks associated with administering the alcohol beverage tax. The BOE asserts that current staffing levels are inadequate to complete workload and generate the full amount due in annual alcohol beverage tax revenue. The BOE anticipates these resources will generate \$1.3 million, a 5.7:1 benefit-cost ratio.

Tire Fee Increase Workload. The Administration requests to make permanent 5.8 currently limited-term positions at a cost of \$485,000 (California Tire Recycling Management Fund), in order to strengthen the BOE's ability to collect the tire fee. Collection efforts from the current

positions have yielded a more than 60:1 benefit-cost ratio. Additionally, the Administration seeks statutory authority to shift reimbursement for BOE staff work from reimbursement by the California Integrated Waste Management Board to a direct appropriation from the California Tire Recycling Management Fund.

Electronic Waste Recycling Fee Workload Adjustment. The budget includes a reduction of 20.7 positions and \$1.3 million (E-Waste Recovery and Recycling Account). Additionally, the BOE seeks to extend six expiring limited-term positions for an additional two years, at a cost of \$230,000. This realignment is intended to align budgeted dollars and staffing with a revised workload estimate of e-waste registered retailers.

International Fuel Tax Agreement (IFTA) Workload Growth. The Administration requests 11 new positions, including 8 new positions and 3 three-year limited-term positions, funded by redirecting existing funding of \$1 million from the Motor Vehicle Fuel Account. This proposal will better enable the BOE to meet national IFTA membership requirements and protects the estimated \$3 billion in matching federal funds. The BOE anticipates these new positions will generate an additional \$2.7 million annually for the Motor Vehicle Fuel Account.

Motor Vehicle Fuel Audit Staff Augmentation. The Administration requests \$715,000 (Motor Vehicle Fuel Account) and 5 audit positions to take advantage of new data generated by an automated reporting system and ensure tax compliance within the BOE's transportation tax programs; the motor vehicle fuel tax, diesel fuel tax, and jet fuel tax. The BOE anticipates revenues of \$14 million associated with these positions, a 21:1 benefit-cost ratio.

Expanded Environmental Fee Program (Assembly Bill 1803). In accordance with Chapter 77, Statutes of 2006 (AB 1803, Committee on Budget), the Board of Equalization requests reimbursement authority to recover costs associated with implementing and administering statutory changes to the BOE's Environmental Fee Program. Five new positions and \$483,000 (fee reimbursements) are needed to carry out these changes. AB 1803 expanded the types of businesses subject to the environmental fee to include limited liability companies, limited partnerships, limited liability partnerships, general partnerships, and sole proprietorships.

E-Filing Infrastructure Project. The Administration requests two positions and \$1.5 million (including \$949,000 General Fund) to expand electronic filing of returns to include the most complex and detailed returns. These returns constitute approximately 175,000 accounts and 89 percent sales and use tax revenues. The BOE anticipates that this expansion of e-file capacity will enable them to accelerate revenue collections by about \$20 million each year.

Tobacco Products Manufacturer and Importing Licensing (AB 1749). In accordance with Chapter 501, Statutes of 2006 (AB 1749, Horton) the Board of Equalization seeks 8.1 positions and \$1.2 million (\$181,000 General Fund) to implement AB 1749. This bill expanded the licensing and reporting requirements for tobacco manufacturers and importers. The BOE expects additional revenue of approximately \$4.2 million annually, a 6:1 benefit-cost ratio.

Tax Payment Delinquencies: Public Disclosure (AB 1418). In accordance with Chapter 716, Statutes of 2006 (AB 1418, Horton) the Board of Equalization seeks one, two-year limited-term position and \$106,000 (\$69,000 General Fund) to implement AB 1418. This bill required the

BOE and Franchise Tax Board to compile and make public on a quarterly basis a list of the 250 largest delinquent taxpayers.

Vehicle, Vessel, and Aircraft Use Tax Payments. The Administration proposes to make permanent a statutory requirement that use tax be paid if a vehicle, vessel or aircraft is brought into the state within 12 months of purchase. Currently, use tax (state and local) is imposed on property purchased outside of California at the same rate and with the same method as the sales tax, but brought into and used in California. Unless amended, a suspended provision of law would be reactivated declaring that a vehicle, vessel, or aircraft purchased outside the state and brought into the state 90 days after purchase is not subject to the tax.

0890 Secretary of State

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. The Secretary of State is responsible for the appointment of notaries public, enforcement of notary law and preservation of certain records with historical significance. The Secretary of State's office includes Elections, Political Reform, Business Programs, Archives, and Information Technology and Management Services Programs.

The Governor's budget funds 477 positions (including 15 new positions) and budget expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$39,974	\$36,150	-\$3,824	-9.6%
Secretary of State's Business Fees	36,791	36,854	63	0.2
Federal Trust Fund	14,465	10,673	-3,792	-26.2
Reimbursements	7,347	7,339	-8	-0.1
Victims of Corporate Fraud Compensation	1,624	1,627	3	0.2
Total	\$100,201	\$92,643	-\$7,558	-7.5%

Highlights/Issues

Revised Spending Plan for Help America Vote Act Expenditures. The Governor's Budget includes \$10.6 million in federal fund spending authority to continue implementing HAVA in accordance with a revised expenditure plan. A total of \$369 million in federal funds has been appropriated to California for voter equipment replacement, voter education, and related activities. Of the \$10.6 million requested for expenditure in the budget, \$6.4 million will be used to begin implementing the VoteCal statewide voter database, \$1.1 million to provide election assistance for people with disabilities, \$1.9 million for administration, and \$1.2 million for other elections-related activities.

Given the past history of misuse and delays in encumbering federal funds, the Budget Subcommittee will closely examine the latest expenditure plan, focusing on the projected rates of expenditure and specific use of funds.

Voter Registration Database Replacement. The Secretary of State requests 6.5 positions and \$6.9 million in federal fund spending authority to begin the process of replacing the existing

CalVoter statewide voter database with a more centralized and technologically advanced VoteCal database. The VoteCal database will contain the name and registration information for every legally registered active or inactive voter in California. After all federal HAVA funds are expended these positions will be funded by the General Fund.

Repayment for Help America Vote Act Audit Findings. The Secretary of State requests \$2.4 million General Fund to repay the Federal Trust Fund for illegal HAVA expenditures identified by the U.S. Elections Assistance Commission. A previous repayment of \$536,000 has been approved in the current year, bringing the total repayment to \$2.9 million.

Secretary of State Headquarters Repair and Shift to an Individual Rate Building. The Secretary of State requests \$1.7 million to effect repairs to the Secretary of State's headquarters building in Sacramento, including replacement of the building roof, the establishment of a special repairs fund, and \$15,000 for recurring maintenance for the security keycard system. The Secretary of State also requests to shift the annual budgeting of the headquarters building to an individual rate building, which will enable the establishment of a special repairs reserve account to fund future repairs to the building.

0950 State Treasurer's Office

The State Treasurer, a constitutionally established office, provides banking services for state government with the goals of minimizing interest and service costs, and maximizing yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other state agencies.

The Treasurer's Office also plays a central administrative role to numerous state boards, authorities, and commissions. The Treasurer serves as chair or member of these various agencies that organizationally report to the State Treasurer's Office. Many of these agencies are authorized to issue debt for specific purposes as permitted by law. These agencies also may advise California municipalities on debt issuance and oversee the state's various investment operations.

The Governor's budget funds 226.6 positions (with 4 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$6,068	\$6,132	\$64	1.1%
Reimbursements	16,533	16,637	104	0.6
Total	\$22,601	\$22,769	\$168	0.7%

Highlights

FI\$Cal Support. The State Treasurer's Office requests four positions and \$481,000 to support the Department of Finance's Financial Information System for California (FI\$Cal) technology project. The FI\$Cal project is a long-term IT project to procure a comprehensive statewide financial management system, incorporating budgeting, accounting, procurement, cash management, and related components.

Appropriation Reduction for California Industrial Financing Advisory Commission. The California Industrial Financing Advisory Commission (CIDFAC) requests a reduction of one position and \$151,000 (Industrial Development Fund) to reflect a decrease in workload. The CIDFAC's revenue is generated by manufacturing finance activity, which has slowed considerably in the current economy. Additionally, new financing options available to businesses in Federal and State tax law has slowed CIDFAC activity.

STATE AND CONSUMER SERVICES AGENCY

The State and Consumer Services Agency includes the budgets of the Department of Consumer Affairs (including all bureaus, boards programs and divisions); the Department of Fair Employment and Housing; the Franchise Tax Board; the Department of General Services; and the Department of Technology Services. Departments with major budget change proposals are highlighted. The State Personnel Board; the Public Employees' Retirement System; and the State Teachers' Retirement System are included in the Public Employment and Retirement section of this overview.

0510 State and Consumer Services Agency

The State and Consumer Services Agency oversees the departments listed above, among others.

The Governor proposes \$3.2 million (\$2.5 million General Fund) and 23.7 positions – an increase of \$1.8 million and 14.9 positions.

Highlights

Creation of California Office of Information Security and Protection. The Administration proposes to reorganize the Information Security and Consumer Privacy Protection functions of the State by merging the Office of Privacy Protection (currently within the Department of Consumer Affairs) with the State Information Security Office (currently at the Department of Finance) to create the new Office of Information Security and Protection at the State and Consumer Services Agency. With the addition of three new positions, the Office would have a staff of 14 people and a budget of \$1.7 million. Note, the Administration is also proposing to reorganize other aspects of State information technology (IT) management by shifting certain IT functions at the Department of Finance to the Office of the Chief Information Officer, which was formally created by SB 834 (Chapter 533, Statutes of 2006).

1110 & 1111 Department of Consumer Affairs

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 27 semi-autonomous boards and 13 bureaus and programs that regulate over 230 professions. The 2007-08 budget for Consumer Affairs and its associated boards, bureaus, and commissions totals \$447.0 million (no General Fund) and 2,758 positions, which is an increase of \$31.8 million and 113 positions.

Highlights – Boards (1110)

Accounting Board. The Governor proposes various staffing and funding increases that total \$1.3 million and 16.1 new positions. Among these are 3 new positions and \$213,000 for the Practice Privilege Program, which was added by SB 1543 (Chapter 921, Statutes of 2004) to allow out-of-state accountants to practice in California, as specified.

Various Boards – New Statutory Requirements. The Governor proposes the following budget augmentations citing the requirements of legislation chaptered in 2006.

- **Medical Board:** \$100,000 (one-time) is requested to implement AB 2342 (Chapter 276), which requires the Board, in conjunction with the Health Professions Education Foundation, to study the issue of its providing medical malpractice insurance for physicians and surgeons who provide voluntary unpaid services to indigent patients.
- **Board of Barbering and Cosmetology:** \$188,000 and 1.5 positions (ongoing) are requested to implement new workload requirements mandated by AB 861 (Chapter 411), which requires a study on licensing individuals with criminal records and allows the Board to issue probationary licenses.
- **Dental Board:** \$69,000 and 0.5 positions are requested to address increased licensing workload created by the enactment of SB 438 (Chapter 909), which broadens the scope of practice for Oral and Maxillofacial surgery permit holders. Additionally, \$63,000 and one position are requested to address the increased workload of SB 683 (Chapter 805), which provides an additional licensure pathway.
- **Committee on Dental Auxiliaries:** \$303,000 and two positions are requested to fund examination development workload created by SB 1541 (Chapter 908).

Highlights – Bureaus (1111)

Professional Fiduciaries Bureau. The Governor requests \$1.1 million and five positions in 2007-08 for the newly-created Professional Fiduciaries Bureau. The Bureau was established by SB 1550 (Chapter 491, Statutes of 2006) and will license and regulate professional fiduciaries.

Bureau of Automotive Repair. The Governor proposes an augmentation of \$12.3 million and 9.1 positions in 2007-08 and \$22.9 million and 13 positions in 2008-09 to implement the provisions of AB 1870 (Chapter 761, Statutes of 2006). AB 1870 requires the Bureau to incorporate a visible smoke test into the Smog Check Program and increase the polluting vehicle retirement payment from \$1,000 to \$1,500.

Bureau of Private Postsecondary and Vocational Education. The Governor proposes to continue the operation of the Bureau, which is scheduled to sunset effective July 1, 2007. The Administration proposes a funding increase of \$3.4 million and 21.4 positions. Additionally, the Administration indicates it will sponsor legislation to reform the Bureau's operations.

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

The Governor proposes \$24.4 million (\$18.6 million General Fund) and 228.2 positions – an increase of \$2.6 million and 16.2 positions.

Highlight

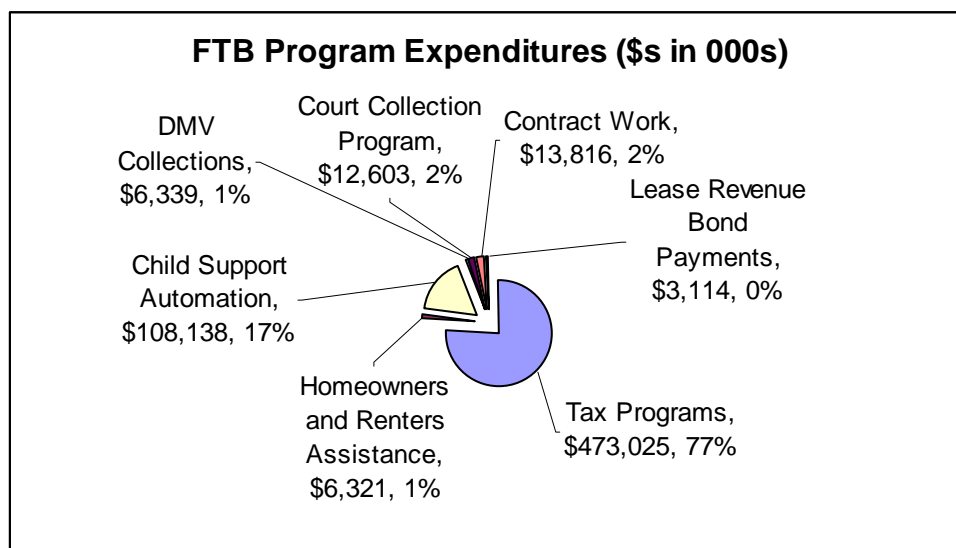
Staffing Augmentation. The Administration submitted two proposals to increase staffing. Budget Change Proposal #1 requests \$873,000 (General Fund) and seven positions to address the increasing number of housing cases filed annually. Budget Change Proposal #2 requests \$1.5 million (General Fund) and 10 positions to address increased workload in the legal and administration areas.

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers state personal income tax and corporation taxes for the State of California, collects debt on behalf of other state agencies and local entities, and performs audits of campaign statements and lobbyist reports authorized by the Political Reform Act of 1974. The FTB is tasked to correctly apply the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view.

The Governor's budget funds 5,174 positions (including 240 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$562,159	\$517,959	-\$44,200	-7.9%
Motor Vehicle Account	2,180	2,198	18	0.8
Motor Vehicle License Fee Account	4,106	4,141	35	0.9
Court Collection Account	10,572	12,603	2,031	19.2
Reimbursements	184,161	86,354	-97,807	-53.1
Other Funds	101	101	0	0.0
Total	\$763,279	\$623,356	-\$139,923	-22.0%



Highlights

E-Commerce Portal Infrastructure. The Administration requests \$1.5 million General Fund and one position to replace the current Internet infrastructure at the Butterfield Way campus in Sacramento and provide redundancy to accommodate growth in the FTB's e-commerce programs. These programs facilitate taxpaying by providing online filing services and other capabilities previously done by mail or phone. This request represents year one of a three-year project of which total costs are expected to be \$4.5 million.

Legal Support for Abusive Tax Shelters. The Administration requests \$1.3 million and 10 new positions to address Abusive Tax Shelter workloads. This workload was first funded in a 2005-06 budget change proposal on a limited-term basis. Projected workload has not abated since the positions were established and the department seeks to establish the positions permanently.

Child Support Automation System. The department requests a budget reduction of \$99.2 million (\$33.7 million General Fund) to reflect reduced project costs for the implementation of the CCSAS project. The CCSAS is a multi-year information technology project to develop, implement, and maintain an automated child support tracking system. This request conforms to the timelines and findings of the latest project Special Project Report and progress reports filed with the Federal government.

Tax Payment Delinquencies: Public Disclosure (AB 1418). In accordance with Chapter 716, Statutes of 2006 (AB 1418, Horton) the Franchise Tax Board seeks one, 1-year limited-term position and \$144,000 General Fund to implement AB 1418. This bill required the BOE and Franchise Tax Board to compile, and make public on a quarterly basis, a list of the 250 largest delinquent taxpayers in excess of \$100,000. The FTB estimates that this action will generate \$30 million in 2007-08 and \$5 million thereafter.

Elimination of Tax Clearance Certificate (AB 2341). The Administration proposes to recognize savings of \$1.3 million General Fund and a reduction of 18 positions to reflect the implementation of Chapter 773, Statutes of 2006 (AB 2341, Villines). This bill eliminated a requirement for businesses to obtain a tax clearance when they closed down and in some cases suspends liability for the annual or minimum franchise tax.

Teacher Retention Tax Credit. The Governor's Budget proposes elimination of the statutory authority for the Teacher Retention Tax Credit, which would generate savings of \$165 million General Fund. The tax credit provides up to \$1,500 to credentialed teachers, depending on their years of service. Created in 2000, the credit has been suspended in 2002, 2004, 2005, and 2006.

Issue

Tax Gap Budget Change Proposal. The FTB estimates that the tax gap, the difference between what taxpayers actually pay and what they should pay, is around \$6.5 billion/year. In a typical tax year, approximately 89 percent of all taxes owed are ultimately paid, with the remaining 11 percent constituting the tax gap. The tax gap is harmful to the state in many ways, but

principally because: (1) those who pay their fair share pay higher taxes to cover the gap, and (2) tax collections are undermined by the public perception that some are not paying their fair share.

The tax gap is manifested in three forms: manipulated tax filings through underreporting of income and overstating deductions; nonfiling of tax returns; and underpayment of amounts owed. Underreporting income and overstating deductions is by far the most common form (80 percent of total) with nonfiling and underpayments making up the remaining causes (about 10 percent each).

The Administration requests funding of \$19.6 million General Fund and 230 positions to support existing efforts to narrow the tax gap and develop new initiatives to further close that gap. Anticipated revenues in the budget year are approximately \$77.5 million in the budget year. These important and far-reaching proposals include the extension of positions and activities approved in prior budgets. The continuing initiatives include efforts to detect preparers of fraudulent returns, identifying new information sources to identify non-filers, and augmenting audit and collections staff.

The new initiatives focus on longer-term approaches to narrowing the tax gap and are based on a recently developed strategic plan to address the tax gap. They include: expanding the corporate non-filer program, addressing out-of-state tax avoidance, and improving methods for detecting under reporters.

Consistent with past years' practice, the Budget Subcommittee will seek to clarify the benefits of these initiatives, gauge the impact on taxpayer behavior, and explore other means to narrow the \$6.5 billion tax gap even further.

Restoration to Customer Service Level. The administration requests \$1.3 million and 27 positions to restore staffing levels in the Franchise Tax Board's Contact Centers and related supporting workloads. These call center positions were eliminated in recent years to meet budget reduction targets and the department now asks that they be restored in order to restore taxpayer and tax practitioner customer service and meet a response time target of responding to 80 percent of all calls within 2 minutes.

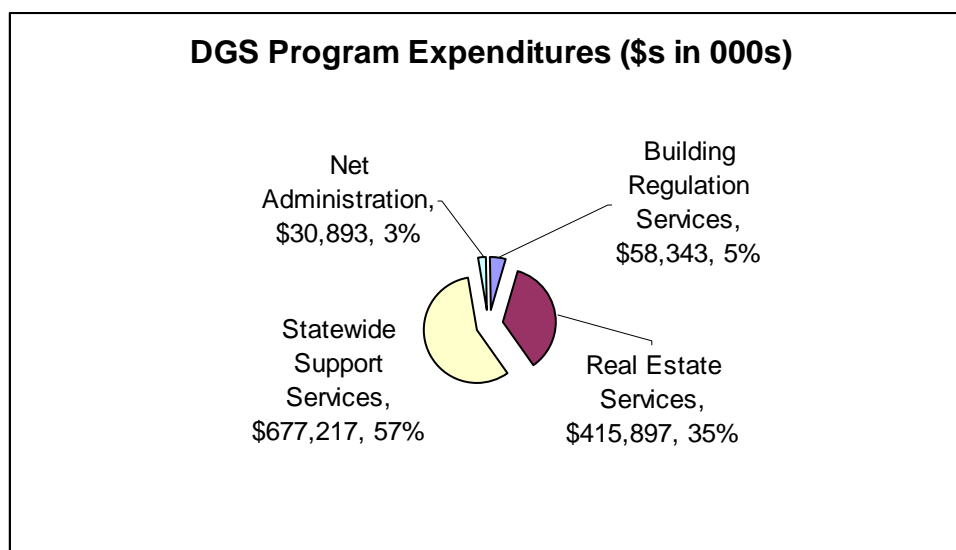
Given the Administrations' extensive emphasis on taxpayer enforcement actions over the past few years, the Budget Subcommittee will look closely at this proposal and other means to better facilitate taxpayers' contact with FTB.

1760 Department of General Services

The Department of General Services (DGS) provides management review and centralized support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties, as well as the state's procurement of materials, communications, transportation, printing, and security.

The Governor's budget funds 3,703 positions (including 67 new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)				
	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$8,012	\$9,225	\$1,213	15.1%
State Emergency Telephone Number Account	157,931	154,578	-3,353	-2.1
State Motor Vehicle Insurance Account	29,937	30,034	97	0.3
Public School Planning, Design, & Construction Review Revolving Fund	35,440	35,638	198	0.6
Architecture Revolving Fund	40,132	41,283	1,151	2.9
Service Revolving Fund	767,142	878,436	111,294	14.5
Other Funds	32,498	33,156	658	2.0
Total	\$1,071,092	\$1,182,350	\$111,258	10.4%



Highlights

Support for Implementation of the Global Warming Solutions Act of 2006. The Administration requests five positions and \$428,000 (Service Revolving Fund) to support the Bureau of Property Management's implementation of Chapter 488, Statutes of 2006 (AB 32, Nunez), the Global Warming Solutions Act of 2006. The Act and related Executive Orders

require DGS to reduce energy purchases for state-owned buildings and to design, build, and operate “greener” buildings.

Private Consultants for Green Building Initiative. The Administration seeks \$3 million (Service Revolving Fund) to secure private consultants to pursue Leadership in Energy and Environmental Design (LEED) goals for eleven state office buildings. This energy efficiency goal is based on the Global Warming Solutions Act of 2006 (AB 32, Nunez), and ties to Executive Order S-20-04, an executive order relating to environmental protection. The cost for this consulting service will be shared by the departments occupying the eleven affected buildings.

Office of Administrative Hearings. The Administration requests to make permanent 73 limited-term Office of Administrative Hearings attorney and support positions. These positions don’t expire until June 2008 so there will be no fiscal impact in the budget year. The cost to make these positions permanent will be \$9.2 million (Service Revolving Fund) ongoing starting in 2008-09. These staff provide services for the Special Education Dispute Resolution Program, which mediates between school districts and parents of developmentally disabled children. The department has faced difficulty in fully staffing for this program due to the limited term nature of the existing positions. Funding for these positions is provided through an interagency agreement with the Department of Education.

Baseline Funding Adjustment for Natural Gas Services. The budget includes \$63.1 million (Service Revolving Fund) to permanently increase the department’s baseline natural gas budget up to \$234.3 million, the expenditure level of the prior year. This increase is driven by the state’s expanded use of natural gas energy, growth in the number of state agency natural gas consumers, and the price of natural gas. The Natural Gas Services Program began in 1997-98 with a budget of \$27 million and has been augmented five times since then, reaching a currently authorized budget of \$173 million.

Budget Bill Language for Tenant Improvements on DGS Individual Rate Buildings.

The Administration seeks statutory authorization to allow the department to spend sinking funds without submission of a budget change proposal for tenant improvements or utilization of vacant state-owned office space. The department believes the length of time necessary for approval of a BCP is too long and detrimental to the most cost effective use of state office space.

Asset Enhancement of Current Surplus Properties. The budget includes a one-time augmentation of \$1.6 million (Property Acquisition Law Money Account) for external consultant services to enhance the valuation of three current surplus properties. These properties are the Lanterman Developmental Center in Pomona, Fairview Developmental Center in Costa Mesa, and Los Angeles Civic Center. The Department reports that the sale of these properties has the potential to increase the market value of these properties by as much as \$30 million.

Conversion of Expiring Positions to Permanent in Office of Public School Construction. The Administration requests \$1.1 million (\$331,000 General Fund) ongoing to make permanent 13 expiring positions in the Office of Public School Construction (OPSC), Fiscal and Program Services Office. The OPSC asserts that not extending these positions would slow the processing of construction applications for the School Facilities Program. These positions will expire on June 30, 2007.

Secretary of State Building: Conversion to Individual Rate Building. The Administration seeks \$14.1 million (Service Revolving Fund) to transition the costs of debt service and set up a building rental rate for the building and establish a special repairs reserve account to fund future repairs to the building. The department asserts that the Secretary of State does not have the expertise or funds available to ensure the building is properly maintained and repaired.

Fleet Analysis and Reporting System. The budget includes a request for two positions and \$614,000 in 2007-08 (Service Revolving Fund) and four positions and \$1.3 million (Service Revolving Fund) in 2008-09 to continue development of a Fleet Analysis and Reporting System to improve tracking state vehicles. Once fully implemented, the department expects savings in excess of \$2 million from surplus vehicle sales.

Infrastructure Studies for DGS Buildings. The budget includes \$230,000 (Service Revolving Fund) for the preparation of two infrastructure studies of DGS buildings. These studies are normally conducted every 20-25 years. The two buildings to be studied are the Gregory Bateson Building and State Personnel Board Building, both in Sacramento.

California Highway Patrol (CHP) Enhanced Radio System. The budget includes 14 positions and \$4.9 million (Service Revolving Fund) in 2007-08 and \$9.4 million (Service Revolving Fund) in 2008-09 to facilitate the implementation of a new public safety radio communications system. All costs of this Budget Change Proposal have previously been identified and approved in a CHP BCP and will be recovered through billing the CHP.

Earthquake Safety Public Buildings Rehabilitation Bond Fund. The Administration requests to eliminate two positions and \$651,000 in expenditure authority for the Earthquake Safety Public Buildings Rehabilitation Bond Fund. A position to handle project management duties for eight proposed earthquake safety projects would be funded from the Architectural Revolving Fund.

State Capitol and Grounds Maintenance and Repairs. The budget includes \$1.2 million General Fund and 4.5 positions to conduct repair projects in the State Capitol and maintenance needs of the barrier system in Capitol Park.

Support for Department of Finance's FISCAL Project. The budget includes 17 positions and \$1.9 million (Service Revolving Fund) to support implementation of the Department of Finance's FISCAL project. This project seeks to update budget-related IT infrastructure throughout state agencies and the Legislature. The total FISCAL request for the budget year (directed by the Department of Finance) is \$35.7 million General Fund and 238 positions.

Capital Outlay BCP: Sacramento Public Safety Communications Decentralization. The budget includes \$4.8 million (various funds) to commence a design phase for the relocation of two critical public safety communications from the top floor of the Resources Building in Sacramento. The Administration seeks to relocate this type of facility from the downtown area to a more seismically sound structure, at a cost of \$29.5 million General Fund.

ISSUE

Augmentation for Building Security Services. The Administration requests \$1.1 million (Service Revolving Fund) to fund increased costs contained in the Master Security Services Agreement for 15 state buildings. This agreement and procurement of private security services is overseen by the California Highway Patrol, who had previously provided security services for these buildings.

The Legislature enacted budget bill language directing the Department of General Services to survey departments and report back by March 15th on security-related expenditures at state buildings from 2000 to 2006. This proposal will be viewed in light of that information (when provided) and the merits of adopting statewide security standards for state buildings.

1955 Department of Technology Services

The Department of Technology Services (DTS) was created in 2005 by the reorganization and consolidation of the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services. The DTS serves the common technology needs of state agencies and other public entities. The DTS maintains accountability to customers for providing secure services that are responsive to their needs and represent best value to the state. Funding for DTS is provided by contracts with other state departments.

The Governor's budget funds 767 positions (including 3 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
Department of Technology Services Revolving Fund	\$235,712	\$255,799	\$20,087	8.5%
Total	\$235,712	\$255,799	\$20,087	8.5%

Highlights

FI\$Cal Project Support. The budget includes three positions and \$352,000 (reimbursements) to support implementation of the Department of Finance's Financial Information System for California (FI\$Cal) project. The FI\$Cal project is a long-term IT project to procure a comprehensive statewide financial management system, to include budgeting, accounting, procurement, cash management, and related components. The budget includes a total of \$35.7 million and 238 permanent positions to support a revised special project report for the FI\$Cal.

Prior Year Project Expenditure Adjustments. The Administration requests to reduce the DTS' baseline budget to align appropriations with the ongoing costs of related projects. The proposed reductions decrease expenditures by \$9.3 million in the budget year and \$6.4 million in

2008-09. The DTS is a fee-for-service organization and operates solely upon reimbursements. This BCP requests the funding authority needed to meet customer's needs and requirements.

Enterprise Data Storage. The Administration requests \$5.3 million in 2007-08 (DTS Revolving Fund) to purchase and upgrade existing data storage capacity and safeguard customer data in order to meet anticipated growth needs of DTS' more than 450 customers. Specific needs have been identified in the mainframe storage capacity, midrange storage capacity, tape storage capacity, and connectivity infrastructure.

Network Workload Growth. The Administration requests a \$3.9 million increase in DTS Revolving Fund spending authority to replace phased-out hardware and accommodate network growth. The funding supports growth in the Wide Area Network, workload growth in supporting the California Child Support Automation System, and replacement of Local Area Network switches where vendor support is ending.

BUSINESS, TRANSPORTATION, & HOUSING AGENCY

This section includes the budgets of the departments of Alcoholic Beverage Control, Financial Institutions, Corporations, Housing and Community Development, Office of Real Estate Appraisers, Real Estate, and Managed Health Care. Transportation-related departments are included in the transportation section of this overview. Departments with major budget changes are highlighted below.

0520 Secretary for Business, Transportation and Housing

The Secretary of the Business, Transportation and Housing Agency (BT&H) is a member of the Governor's Cabinet and oversees departments within the Agency. In addition, the Secretary's Office oversees smaller programs, such as the Small Business Loan Guarantee Program and the Film Commission, which are budgeted directly in the Secretary's Office.

The Governor proposes total expenditures of \$27.7 million (\$9.5 million General Fund) and 63.6 positions for the Office of the Secretary – an increase of \$2.4 million and three positions.

Highlights

Small Business Loan Guarantee Program – Severe Economic Dislocation Grants. The Governor requests a one-time appropriation of \$832,000 General Fund and \$4.3 million federal funds to establish a new loan guarantee program that would primarily use federal funds associated with the Sudden and Severe Economic Dislocation (SSED) Program. The Administration indicates that the Technology, Trade, and Commerce Agency, which was abolished in 2003, administered a Sudden and Severe Economic Dislocation Grant Program as a revolving loan program. With the demise of the Agency, the federal money remains, but cannot be accessed without a General Fund match and a new agency home. The new program would provide loan guarantees to small businesses in areas affected by natural disaster or the loss of jobs from a major employer.

California Travel and Tourism Commission. The Governor proposes to lower General Fund support from \$7.3 million to \$1 million in both 2006-07 and 2007-08 for the Tourism Commission. This proposal is motivated by the passage of AB 2592 (Chapter 790, Statutes of 2006, Leno) which allows the rental car industry to self-assess a new customer fee to support tourism marketing in California. The new fees are expected to bring in \$25 million in 2006-07 and \$50 million in 2007-08 and annually thereafter, which allows for both General Fund savings and an expanded tourism marketing budget.

International Trade and Investment Offices. The Governor requests three new permanent positions, 2007-08 funding of \$591,000, and ongoing funding of \$441,000, to undertake international trade and investment activities. The Administration indicates this request is associated with SB 1513 (Chapter 663, Statutes of 2006, Romero) which, among other provisions, requires the BT&H Agency to complete a study on the role of the state in global markets, develop a strategic international trade and investment plan, convene a statewide partnership to advise the Secretary on the strategic plan and needs of businesses, and study the

feasibility of international trade offices. The Senate Floor analysis for SB 1513 assumed the BT&H Agency could absorb the workload and cost of the study within existing resources.

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) administers the provisions of the Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession, and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state.

The Governor proposes total expenditures of \$51.5 million (no General Fund) and 459.2 positions – a decrease of \$716,000 and no change in positions. No budget change proposals were submitted for the ABC.

2150 Department of Financial Institutions

The Department of Financial Institutions (DFI) regulates depository institutions, including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial services. In addition, the Department licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and/or travelers' checks or licensed to engage in the business of transmitting money abroad.

The Governor proposes total expenditures of \$28.4 million (no General Fund) and 224.1 positions - an increase of \$2.4 million and 13.7 positions.

Highlight

Additional Examiners. The Governor proposes to augment the budget by \$1.2 million and 10 positions (eight Examiners, one Office Technician, and one Financial Institutions Manager) to expand bank examinations in the areas of electronic banking and disaster preparedness. The Administration indicates that California's oversight in these areas is deficient relative to other states.

2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries.

The Governor proposes total expenditures of \$33.9 million (no General Fund) and 277 positions, an increase of \$553,000 and 1.8 positions from the revised current year amounts.

Major Budget Proposals

Examiner Workload. The Administration submitted two proposals to address increased workload for Examiners. The permanent continuation of three limited-term Examiners and \$342,000 is requested for the Lender-Fiduciary Program. Two Staff Services Analysts and

\$159,000 is requested for the Investment Program to take over certain analytical duties currently performed by Examiners to allow current Examiners to spend more time in the field.

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The Department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes \$968.6 million (\$15.6 million General Fund) and 597.2 positions for the department – an increase of \$314.3 million (48 percent) and 70.3 positions.

Revenue Changes

The majority of the Department's expenditures are supported by general obligation bond revenue. The budget includes \$58 million from the Emergency Shelter Trust Fund Act of 2002 (Prop 46) – down by \$170.8 million from 2006-07 due the full expenditure of bond funds for some programs. The budget includes \$659.4 million from the Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C). Portions of Prop 1C funds are continuously appropriated, and the Department is using this existing authority to expend \$161 million in Prop 1C funds in 2006-07.

The second largest revenue source is federal funds, estimated at \$174.5 million in 2007-08, which is about the same as 2006-07. Remaining expenditures of about \$77 million are covered by the General Fund (\$15.6 million), fees, and other miscellaneous revenues.

Highlights

Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C). Prop 1C provides for a general obligation bond issuance not to exceed \$2.85 billion. The Governor proposes to expend \$659.4 million of Prop 1C revenues in 2007-08 (including \$6.4 million and 45 new positions for administration). Using existing expenditure authority, the Department plans to spend \$161 million in 2006-07 (including \$1 million for administrative costs), for a combined two year total of \$820 million. Some Prop 1C programs are already continuously appropriated and other programs require a Budget Act appropriation to authorize expenditure. The Administration also indicates it will be submitting budget trailer bill language to implement certain Prop 1C programs. The chart below outlines proposed Prop 1C expenditures by category and indicates whether each program will be administered by the Housing and Community Development (HCD) Department, or by the California Housing Finance Authority. Dollars are in thousands and 2006-07 and 2007-08 allocations exclude administrative costs.

Proposition 1C Category	2006-07 Allocations	2007-08 Allocations	Total Prop 1C	Approp Type	Budget
<u>Homeownership Programs</u>					
CalHome	\$35,000	\$55,000	\$290,000	Continuous	HCD
CA Homeownership Program (BEGIN)	0	40,000	125,000	Budget Act	HCD
Self-Help Housing Program	0	3,000	10,000	Continuous	HCD
CA Homebuyers Down- payment Assistance Program	0	15,000	100,000	Continuous	CalHFA
Residential Development Loan Program	0	15,000	100,000	Continuous	CalHFA
Affordable Housing Innovation Fund	0	15,000	100,000	Budget Act	HCD
<u>Multifamily Rental Housing Program</u>					
General	70,000	140,000	345,000	Continuous	HCD
Supportive Housing	20,000	80,000	195,000	Continuous	HCD
Homeless Youths	15,000	15,000	50,000	Continuous	HCD
<u>Other Programs</u>					
Serna Farmworker Loans/Grants	20,000	40,000	135,000	Continuous	HCD
Emergency Housing Assistance	0	10,000	50,000	Continuous	HCD
Infill Incentive Grants	0	100,000	850,000	Budget Act	HCD
Transit Oriented Development	0	95,000	300,000	Budget Act	HCD
Housing Urban-Suburban and Rural Parks	0	30,000	200,000	Budget Act	HCD
TOTAL	\$160,000	\$653,000	\$2,850,000		

Funding Shift for New Permanent Positions. The Administration submitted two budget change proposals that would shift existing funds from temporary help and contract vendors to establish 21 new state positions.

- Budget Change Proposal #1 would reestablish 18 of the 57 positions lost due to the hiring freeze in 2002 and 2003. The Department would use existing temporary help dollars such that there would be no net funding increase.
- Budget Change Proposal #2 would establish three new positions to perform work currently done by vendors on the Codes and Standards Automated System (CASAS). The Department would shift contract dollars so this proposal would not result in a net funding increase.

Augmentation for New Permanent Positions. The Administration submitted five proposals, in addition to the Prop 1C request, that would establish 12 new positions to address workload and/or improve customer service.

- Budget Change Proposal #4 would establish four new positions, at a cost of \$697,000 (redirected General Funds), to increase technical assistance and support for the Enterprise Zone program.

- Budget Change Proposal #6 would establish three new positions, at a cost of \$287,000 (funded with existing fees), to provide oversight of third-party inspections and certification of an increased number of factory-built housing.
- Budget Change Proposal #6 would establish three new positions, at a cost of \$287,000 (funded with existing fees), to provide oversight of third-party inspections and certification of an increased number of factory-built housing.
- Budget Change Proposal #10 would establish one new position, at a cost of \$174,000 (various funds), to handle workload increases in the Technical Support Section of the Information Technology Branch.
- Budget Change Proposal #11 would establish one new position, at a cost of \$116,000 (various funds), to handle workload increases in the Budget and Contracts Office.

2320 Department of Real Estate

A primary objective of the Department of Real Estate is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes \$46.6 million (no General Fund) and 336.5 positions for the Department – an increase of \$1.6 million, and no change in positions. No budget change proposals were submitted for the Department.

2400 Department of Managed Health Care

The mission of the Department of Managed Health Care (DMHC) is to help California consumers resolve problems with their Health Maintenance Organizations (HMOs) and to ensure a better, more solvent and stable managed health care system.

The Governor proposes \$43.4 million (no General Fund) and 297.3 positions for the Department – an increase of \$72,000 and no change in positions. No budget change proposals were submitted for the Department.

GENERAL GOVERNMENT

8620 Fair Political Practices Commission

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974. The objectives of the Political Reform Act are to ensure that election campaign expenditure data is fully and accurately disclosed so that the voters may be fully informed, inhibit improper financial practices, and regulate the activities of lobbyists and disclose their finances to prevent any improper influencing of public officials.

The Governor's budget funds 77 positions (including 5 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$7,441	\$8,048	\$607	8.2%
Total	\$7,441	\$8,048	\$607	8.2%

Highlight

Administrative Workload Growth. The Administration requests five positions and \$604,000 to support administrative workload at the Fair Political Practices Commission (FPPC). Four of the requested positions would assist with budget, personnel and information technology workload, and one would address conflict of interest review issues in the Technical Assistance Division.

8860 Department of Finance

The Department of Finance is responsible for advising the Governor on fiscal matters, preparing the annual executive budget, evaluating the operation of state government, and developing economic and demographic information. In addition, the department oversees the operation of the state's accounting and fiscal reporting system. The Office of State Audits and Evaluations assesses the operation of the state's programs. Finally, the Office of Technology, Review, Oversight, and Security serves as the administration's information technology project review unit.

Summary of Programs				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Annual Financial Plan	\$20,976	\$21,081	\$ 105	0.5
Statewide Systems Development Program and Information System Assessments	--	37,941	37,941	100.0
Supportive Data Administration	14,032	12,401	-1,631	-11.6
Distributed Administration	16,332	12,956	3,376	-20.7
	6,168	7,612	1,444	23.4
	-6,168	-7,612	-1,444	-23.8
Total	\$51,340	\$84,379	\$33,039	64.4

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
General Fund	\$37,195	\$68,773	\$31,578	84.9
Other Unallocated Special Funds	--	587	587	100.0
Unallocated Bond Funds – Select	--	127	127	100.0
Other Unallocated Cost Funds	--	352	352	100.0
Reimbursements	14,145	14,540	395	2.8
Total	\$51,340	\$84,379	\$33,039	64.4

Highlights/Issues

Financial Information System for California (FI\$Cal). The budget includes \$35.7 million and 238 permanent positions to support a revised special project report for a comprehensive statewide financial system named the Financial Information System for California (FI\$Cal).

In 2005-06, the DOF began development of a Budget Information System (BIS). The scope of the BIS project was to implement a commercial off-the-shelf Budget Information System to meet statewide and departmental budget development and budget administration needs. The purpose of the BIS was to streamline budget processes and develop a year-round integrated budget

system to replace the multiple legacy budget systems. According to the Legislative Analyst Office, the total budget for BIS was projected at \$138 million.

The proposed budget expands the original project's scope in order to procure a comprehensive statewide financial system that will encompass the management of resources in the areas of budgeting, accounting, procurement, cash accounting, grant management and human resources management and renames the revised project the Financial Information System for California (FI\$Cal). The estimated cost of the revised project is: \$221 million in 2008-09, \$210 million in 2009-10, and \$212 million in 2010-11; presumably these are one-time costs, and it is unclear what would be the ongoing operating costs of such a project. A closer examination of this and other major IT projects is warranted in light of the major cost implications and other functional changes in other areas of the budget.

Office of Technology Review, Oversight and Security (OTROS). The budget proposes to transfer \$3.3 million General Fund and 29 positions from OTROS to a newly created Office of the Chief Information Officer (OCIO). According to DOF, transferring the OTROS function to the OCIO will allow the State Chief Information Officer (CIO) to shape project planning documents and to exercise statewide direction, strategic planning and management, as well as control functions such as approval/disapproval of proposed projects, or providing conditional project approval.

8885 Commission on State Mandates

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. The Commission is tasked to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state.

The Governor's budget funds 14 positions (with no new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$404,095	\$1,715	-\$402,380	-99.6%
State Highway Account	0	8	8	n/a
Motor Vehicle Account	1,551	10,825	9,274	597.9
Dept of Pesticide Regulation Fund	162	666	504	311.1
Total	\$405,808	\$13,214	-\$392,594	-96.7%

Highlight

The Governor's budget includes no adjustments to the Commission on State Mandates program budget.

Issues

Local Government State Mandates Payments. The budget includes no funding for General Fund mandate payments. The Administration has adopted a perspective that these mandates are due and payable not at the time individual claims are received (standard practice to date), but instead when all claims are received and audited. This change results in a one time cost shift to 2008-09 and a budget savings of approximately \$125 million.

The Budget Subcommittee will closely examine the legality and practicality of this Administration proposal.

Statutory Repayment of Past Due State Mandate Claims. The Administration proposes no payments for past due state mandate claims to local governments. In accordance with Proposition 1A (2004), the state must repay local agencies within 15 years for all of the pre-2004 mandates that have not been reimbursed. The approximate total of past due mandates is \$1.2 billion. However, the current year budget included two years' worth of these payments, allowing the option of forgoing a year's worth of payments in the proposed budget.

Local Government Mandate Suspensions. The same twenty-eight mandates that were suspended last year are again recommended for suspension in the budget year. The Budget Subcommittee will carefully evaluate the cost savings and policy implications of suspending each of these mandates.

Mandate Process Changes. The Administration has proposed the creation of an alternative mandate claim filing process to potentially reduce delays in mandate determinations and reduce costs. This new "joint determination" process would encourage local agencies and the Department of Finance to determine together, within 12 months of the enactment of a new statute, whether a new mandate has been established and the cost for that mandate. Costs, once agreed upon by both parties, would be submitted for Legislative review in the budget bill. If either the Department of Finance or local agencies disagreed with the joint determination, they may still opt to follow the current mandate determination process.

8910 Office of Administrative Law

The Office of Administrative Law is responsible for reviewing administrative regulations proposed by over 200 state regulatory agencies for compliance with standards set forth in California's Administrative Procedure Act, for transmitting these regulations to the Secretary of State, and for publishing regulations in the California Code of Regulations. In response to petitions by interested persons, the Office evaluates whether rules being used by state agencies constitute underground regulations which have not been properly adopted pursuant to the requirements of the Administrative Procedure Act and issues formal determinations reflecting those evaluations. The Office oversees the publication and distribution, in print and on the Internet, of the California Code of Regulations and the California Regulatory Notice Register.

The Governor's budget funds 20 positions (including two new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$2,906	\$2,933	\$27	0.9%
Total	\$2,906	\$2,933	\$27	0.9%

Highlights

Conversion of Limited-Term Attorney Positions to Permanent. The Administration requests \$224,000 General Fund to convert two expiring Staff Counsel positions at the Office of Administrative Law (OAL) to permanent positions. Established in the 2005 Budget, these positions support OAL efforts to enforce laws prohibiting the use of underground regulations. Since establishment, the OAL reports that underground regulation caseload has increased significantly.

Shift from Reimbursements to Revenue. The Administration seeks to revise \$298,000 of the Office of Administrative Law's (OAL) spending authority from a reimbursement to a direct General Fund cost basis. This conversion is based on the revisions to the contract with the printer of California's Code of Regulations, which make it more appropriate to make a direct appropriation for printing services.

8940 Department of the Military

The Military Department is responsible for the command, leadership and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting this state and the nation. The three missions of the California National Guard are to: (1) supply mission ready forces to the federal government as directed by the President; (2) provide emergency public safety support to civil authorities as directed by the Governor; and (3) support local communities as directed by proper authorities. The Military Department is organized in accordance with federal Departments of the Army and Air Force staffing patterns. In addition to the funding that flows through the State Treasury, the Military Department also receives Federal Funding directly from the Department of Defense.

The Governor's budget funds 780 positions (including 95 new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$42,330	\$44,829	\$2,499	5.9%
Armory Discretionary Improvement Account	146	150	4	2.7
Armory Fund	1,425	0	-1,425	-100.0
Federal Trust Fund	68,544	70,548	2,004	2.9
Reimbursements	15,286	15,610	324	2.1
California Military Family Relief Fund	250	250	0	0.0
Total	\$127,981	\$131,387	\$3,406	2.7%

Highlights

Education Assistance Program. The Administration requests \$1.7 million General Fund in 2007-08 and \$3.3 million General Fund in 2008-09 and ongoing to establish a California National Guard Election Assistance Program to provide tuition assistance for Guard members and support with recruitment and retention efforts. The Administration will propose enabling legislation to establish this program.

Armory Maintenance and Repair Baseline Increase. The Administration seeks to address a maintenance backlog for state armories by establishing a baseline increase of \$4.5 million (\$3 million General Fund, \$1.5 million Federal Trust Fund) for an ongoing maintenance and repair budget. These funds would be used for cyclic maintenance and remedial repairs as required. This request follows a one-time augmentation in the same amount for the current year.

New Armory Utilities Costs and Maintenance Cost Increases. The Administration requests a baseline increase of \$774,000 (\$442,000 General Fund) and four positions to provide custodial services to four new armories brought online in 2006. Based on the custodial budgets of armories of similar size, the California Military Department estimates operational costs of \$124,000 at each armory.

Military Funeral Honors Program.

The Governor's Budget includes \$1.8 million (General Fund) and 23 positions to provide the additional resources necessary to meet the increased demand for military funeral honors. The proposed administrative staff will train personnel, assign missions, submit reports to the Department of Defense, and perform other support tasks.

Stationary Engineer Positions. The Administration seeks to establish two stationary engineer positions at a cost of \$292,000 (\$166,000 General Fund) to assist in the preventive maintenance, perform repairs, and evaluate contractor work at California National Guard facilities. The

department is not currently authorized the Stationary Engineer positions sought for this specialized type of work.

Service Member Care. The Administration requests \$165,000 General Fund ongoing and one position to establish a full time mental health care capability. The proposed position will provide emergency crisis counseling, referral and personal support, combat stress evaluations, and other mental health support. Unlike California law enforcement agencies, the California Military Department has no full-time support system in place for service members.

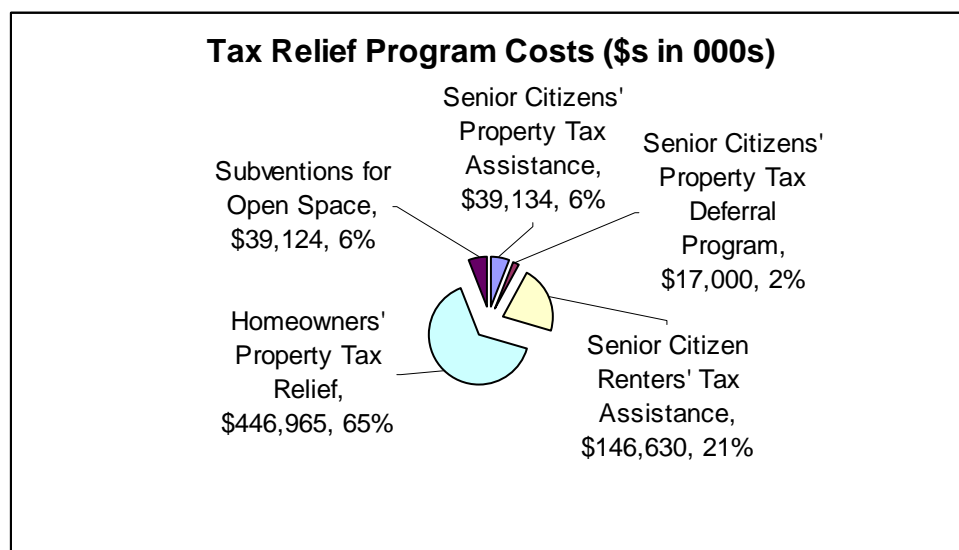
Homeland Security Training and Exercise Program. The Administration requests \$5.7 million ongoing (reimbursements) and 12 five-year limited-term positions to expend funds received from the Office of Homeland Security for staffing support and operational expenses. (The Office of Homeland Security received these funds from the Department of Homeland Security.) These positions would support the Office of Homeland Security's statewide antiterrorism program and other training.

Federal Reimbursements for Force Protection. The Administration seeks to expend \$3.5 million (Federal Trust Fund) and establish 47 three-year limited-term positions to provide security for California National Guard installations and Army airfields. The Federal government has agreed to provide security staffing at eight selected California National Guard stations that are considered "mission essential."

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Tax relief is provided to individuals who agree to hold their land as open space under the Williamson Act of 1965 and through payments to cities and counties to help defray revenues lost as a result of tax relief programs.

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$682,436	\$688,853	\$6,417	0.9%
Total	\$682,436	\$688,853	\$6,417	0.9%



Budget Proposal

Williamson Act. The Governor's budget fully funds the Williamson Act subventions for open space preservation at \$39.1 million.

9210 Local Government Financing

Local governments receive a variety of subventions from the state for designated purposes such as health, welfare, and public safety programs. The state provides other assistance to local governments, primarily counties, through other direct programs contained in other items in the budget. For example, Health and Human Services has several programs where the state and counties jointly provide funding for services. State funding is also included in public safety for such issues as local crime labs and suppression of high intensity drug trafficking areas.

Local Government Financing expenditures are as follows:

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$293,934	\$294,309	\$375	0.1%
Total, Fund Source	\$293,934	\$294,309	\$375	0.1%

Major Budget Proposals

Reduction to Redevelopment Bond Debt Backfill. The Administration proposes to reduce subventions to redevelopment agencies for bond debts by \$1.9 million. This backfill was created to enable payment of debt service after statute reduced personal property tax subventions to redevelopment agencies. Budget bill provisional language is proposed to reform the allocation of this subvention in accordance with the reduced appropriation.

Rural and Small County Law Enforcement Grants. The budget fully funds the Rural and Small County Law Enforcement Grants subvention at \$18.5 million. This program provides \$500,000 in grants to 37 rural counties.

Juvenile Justice Crime Prevention Act (JJCPA). JJCPA program funding is \$119 million, the equivalent of last year's appropriation.

Citizen's Option for Public Safety (COPS). Funding for the COPS program is maintained at \$119 million. This program provides discretionary funding on a per capita basis for local police departments and sheriffs for front line law enforcement (with a minimum guarantee of \$100,000), sheriffs for jail services, and district attorneys for prosecution.

Local Detention Facility Fees. The Administration includes an appropriation of \$35 million for activities associated with local detention facilities. Chapter 1805, Statutes of 2006 (AB 1805, Committee on Budget) established that counties, cities and counties, and certain cities may apply to the Controller to receive funding for local detention facilities and related equipment when an appropriation is made for that purpose.

9840 Augmentation for Contingencies and Emergencies

Each year, the Budget Act includes appropriation items in Item 9840 to be used to supplement departments' appropriations that are insufficient due to unanticipated expenses or emergency situations. There are three separate appropriations, one for each fund type - General, special, and non-governmental cost funds. These appropriations are allocated to other departments by the Department of Finance (with Legislative review) based upon the determination of need.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Fund Source				
General Fund	\$45,714	\$49,000	\$3,286	7.2%
Other Unallocated Special Funds	9,753	15,000	5,247	53.8
Various Other Unallocated Non-Governmental Cost Funds	15,000	15,000	0	0.0
Total	\$70,467	\$79,000	\$8,533	12.1%

No adjustments are proposed for this item.

Budget Control Sections

Control Section 4.05: Unallocated Reductions. The Governor's Budget includes a \$100 million unallocated reduction for state agency's General Fund appropriations.

The original use of this control section was to reduce departments' budgets through layoffs, hiring freezes, procurement reductions, or other administrative means to achieve reductions. However, in recent years debt financing cost savings and caseload decreases—expenditure adjustments that occur naturally and don't involve departmental reductions—have been increasingly utilized to reach unallocated reduction targets. For example, the current year unallocated reduction goal of \$200 million was met by recognizing more than \$132 million in reduced debt general obligation debt service and interest on General Fund loans. While it is important to recognize these savings for the purpose of an accurate budget, the Budget Subcommittee may wish to reconsider how these reductions are recognized in a statewide control section.

Control Section 4.26: Elimination of Boards and Commissions. The Administration proposes a budget control section to instruct the Director of Finance to reduce items of appropriation to reflect savings achieved by abolishing the following boards and commissions: (1) California Consumer Power and Conservation Financing Authority; (2) California Electricity Oversight Board; (3) California Quality Education Commission; (4) Heritage Preservation Commission; and (5) Public Library Construction and Renovation Board.

Control Section 35.60: Budget Stabilization Account (BSA) Transfer to the General Fund. The Administration proposes to allow the Director of DOF to make transfers from BSA to the General Fund reserve whenever s/he determines that a shortfall will occur in the General Fund

reserve (with Legislative notification afterwards). This proposal was considered and rejected by Budget subcommittees last year.

JUDICIAL BRANCH

0250 Judicial Branch

Background. The California Constitution vests California's judicial authority in a three part court system composed of the Supreme Court, the Courts of Appeal, and the Trial Courts (also referred to as Superior Courts). The budget for the Judicial Branch is divided between two main segments, the State Judiciary and the Trial Courts. The State Judiciary encompasses the activities of the following entities:

- **Supreme Court**—The highest court in the state judicial system reviews legal questions of statewide importance and appeals of all death penalty judgments.
- **Courts of Appeal**—The six district Courts of Appeal hear appeals in all areas of civil and criminal law.
- **Habeas Corpus Resource Center**—This center provides legal representation for defendants in death penalty habeas corpus proceedings in the Supreme Court and in the federal courts.
- **Judicial Council**—The Judicial Council of California administers the state's judicial system. The Administrative Office of the Courts is the administrative arm of the Judicial Council and oversees the Judicial Branch Facility Program.

The largest component of the budget for the Judicial Branch is the local assistance for California's 58 Trial Courts (one in each county). Chapter 850, Statutes of 1997 (AB 233, Escutia and Pringle) shifted primary fiscal responsibility for these courts from the counties to the state. Under this law the state now funds the Trial Courts above a fixed county contribution.

Additional legislation and a voter initiative have further reshaped the Trial Courts since 1998. Proposition 220, passed by the voters in 1998 unified the county's superior and municipal courts into a one-tier trial court system. Chapter 1010, Statutes of 2000 (SB 2140, Burton) gave the courts the status of independent employers, making Trial Court staff employees of the court. Finally, Chapter 1082, Statutes of 2002 (SB 1732, Escutia) set up a framework to transfer the courthouses from the county to the state. The Judicial Branch is currently in the process of making these transfers and current law allows facilities to be transferred until the end of the 2006-07 fiscal year.

Governor's Budget. The Governor's budget proposes \$3.7 billion to support the Judicial Branch, which is 3.6 percent greater than estimated expenditures in the current year. General Fund support for the Judiciary is \$2.3 billion, which is about 12 percent greater than estimated expenditures in the current year. The increase in the budget year is primarily due to the year-over-year growth in the State Appropriations Limit and the full-year costs of 50 new judgeships approved in the 2006-07 Budget Act.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Supreme Court	\$43,332	\$44,924	\$1,592	3.7
Courts of Appeal	190,781	203,610	12,829	6.7
Judicial Council	121,823	127,529	5,706	4.7
Judicial Branch Facility Program	34,727	36,387	1,660	4.8
State Trial Court Funding	3,091,911	3,265,197	173,286	5.6
Habeas Corpus Resource Center	13,344	14,263	919	6.9
Capital Outlay	87,498	19,527	-67,971	-77.7
Total	\$3,583,416	\$3,711,437	\$128,021	3.6
Funding Source				
General Fund	\$2,007,914	\$2,251,581	\$243,667	12.1
Special Funds	1,489,097	1,394,804	-94,293	-6.3
<i>Budget Total</i>	<i>3,497,011</i>	<i>3,646,385</i>	<i>149,374</i>	<i>4.3</i>
Federal Trust Fund	6,371	6,391	20	0.3
Judicial Branch Workers' Comp Fund	2	2	0	0.0
Public Building Construction Fund	21,178	0	-	-
Reimbursements	58,855	58,659	-196	-0.3
Total	\$3,583,417	\$3,711,437	\$128,020	3.6

Infrastructure Bond. The Governor has proposed a continuation of phase one of his Strategic Growth Plan, which includes \$2 billion in general obligation bonds for new and expanded court facilities. The Governor indicates that the \$2 billion being proposed will handle the most critical infrastructure needs and allow the courts to leverage private funding through public-private partnerships. Potential partnerships include exchanging outdated court facilities on valuable urban land for new court facilities on less prominently located property, co-locating revenue-generating commercial space in new court buildings, and contracting with private firms to construct and operate court buildings in exchange for lease payments.

Highlights

Entire Judicial Branch Fully Funded at State Appropriations Limit Rate. The Governor proposes to fully fund the entire Judicial Branch based on the year-over-year change in the State Appropriations Limit (5.36 percent) at an incremental cost of \$146.8 million General Fund. This includes \$16.7 million in additional monies for the State Judiciary and \$130.1 million for the Trial Courts. Current law requires that the Trial Courts receive a growth factor based on the State Appropriations Limit, but this is not a requirement in state law for the State Judiciary.

New Judgeships Proposed. The Governor proposes \$27.8 million in the budget year and \$74.3 million in 2008-09 to add 100 new judgeships over a two-year period beginning in April 2008. This proposal also supports the conversion of up to 161 judicial officers to judgeships, as the positions become vacant, funded from within existing resources. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted. In 2006 the Governor proposed adding 150 judges over a three-year period and the Legislature approved 50 new judgeships.

Funding Implements Recently Enacted Legislation. The Governor proposes \$17.4 million General Fund to implement the Conservatorship and Guardianship Reform Act of 2006. This Act increases court oversight over the conservatorship and guardianship system for elderly and dependent adults. These funds are proposed on a two-year limited-term basis so that the courts can better estimate the total costs to implement this new law.

The Governor also proposes \$1.4 million General Fund to implement AB 2480 (Evans) to require court-appointed counsel for children in appeals of dependency court orders.

New Access to Justice Pilot Program. The Governor proposes \$5 million General Fund to implement a pilot project in three Trial Courts to identify and provide representation to unrepresented litigants on civil matters who need more assistance than what is now available through the self-help programs. The program will help to develop models for providing representation to civil litigants who require representation.

Work to Start on New Court Facilities. The Governor proposes \$19.5 million in State Court Facilities Construction Fund to fund acquisition and working drawings for seven new courthouses in the following counties: Contra Costa, Joint Facility for Plumas and Sierra, Mono, Madera, San Bernardino, San Joaquin, and Riverside.

Issues

New Judgeships Need Legislative Approval. The Governor is proposing to add 100 new judgeships over a two-year period beginning in April 2008 and convert 161 subordinate judicial officers to judgeships. The Legislature may wish to evaluate the need for these new judgeships.

Most Trial Court Facilities Will Not Transfer to State by Deadline. The counties started transferring court facilities to the state in 2004-05. However, the transfer process has been slow and to date only 20 facilities have been transferred. One of the primary reasons for the delay was that a significant number of the court facilities were in need of seismic upgrades that prevented them from being transferred to the state. Legislation enacted in 2006, SB 10 (Dunn), addresses this issue by allowing buildings that need significant seismic upgrades to be transferred to the state so long as liability for all earthquake-related damage remains with the counties.

Current law requires that the counties transfer the court facilities by the end of the current year and the Administrative Office of the Courts expects that another 70 facilities will transfer by this statutory deadline. This leaves 360 court facilities that will not transfer by the statutory deadline. The Legislature may wish to evaluate how to deal with the facilities that have not been transferred by the statutory deadline.

Infrastructure Bond Issues. The Governor's Strategic Growth Plan includes \$2 billion in general obligation bonds to build new and renovate existing court facilities. This represents a portion of the \$5.2 billion identified in the 2006 Five-Year Infrastructure Plan for various

courthouse projects. Furthermore, the Judicial Council has identified nearly \$10 billion in needs to bring all courts up to secure and safe standards and to accommodate growth. A recent report on court facilities found that over half of county court buildings are not able to accommodate people with disabilities, lack up-to-date fire and life safety systems, and pose a substantial seismic risk. The Legislature may wish to evaluate the Governor's bond proposal to determine if it is adequate to meet the immediate needs of the courts.

Furthermore, legislation enacted in 2002 (SB 1732, Escutia) authorized specific penalties and surcharges to be allocated to the State Court Facilities Construction Fund to provide revenues dedicated to the construction and rehabilitation of state court facilities. The Legislature may also wish to consider the availability of these revenues in conjunction with the revenue bond to determine the amount of bond funding needed by the Judicial Branch.

Building Maintenance Payments From Counties Fall Short. As mentioned previously, the state is in the process of taking over responsibility for court facilities previously owned by the counties. As part of this transfer, the counties will pay the state for operations and maintenance of the court buildings through a County Facility Payment. The amount paid annually by the counties is being determined when each court facility is transferred to the state and is based on a five-year average of operations and maintenance costs developed five years ago.

The state is finding that in many cases these maintenance payments do not adequately cover the operations and maintenance costs of the buildings, especially given the age and condition of many of these buildings. Current law allows the County Facility Payments to be augmented by the General Fund at a rate equal to the growth in the State Appropriations Limit two years after the building has transferred from the county to the state. However, even this amount may not be adequate to address all of the operations and maintenance needs of these aging court buildings. The Legislature may wish to evaluate options for addressing ongoing shortfalls in operations and maintenance of state court facilities.

0280 Commission on Judicial Performance

Background. The Commission on Judicial Performance is an independent agency responsible for investigating complaints of judicial misconduct and judicial incapacity and for disciplining judges pursuant to the California Constitution. The Commission is composed of 11 members; three judges appointed by the Supreme Court, two attorneys appointed by the Governor, and six lay citizens, of whom two are appointed by the Governor, two are appointed by the Senate Committee on Rules, and two are appointed by the Speaker of the Assembly.

Governor's Budget. The Governor's budget includes \$4.4 million from the General Fund to support the Commission in the budget year. This is approximately the same level of funding as estimated for expenditure in the current year. There are no budget change proposals for the Commission.

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Commission	\$4,378	\$4,400	\$22	0.5
Total	\$4,378	\$4,400	\$22	0.5
Funding Source				
General Fund	\$4,379	\$4,401	\$22	0.5
<i>Budget Total</i>	<i>4,379</i>	<i>4,401</i>	<i>22</i>	<i>0.5</i>
Judicial Branch Workers' Comp Fund	-1	-1	0	0.0
Total	\$4,378	\$4,400	\$22	0.5

0390 Contributions to the Judges' Retirement System

Background. The Judges' Retirement System funds retirement benefits for California's Supreme, Appellate, and Trial Court Judges. The Judges' Retirement System receives contributions equal to eight percent of salary from both active judges and the state. Additional contributions come from filing fees for specific civil cases and investment income. These contributions have not been sufficient to fully fund benefit payments and current law requires the state General Fund to make up the difference between existing contributions and the required benefit payments to retired judges.

A second retirement system for judges was established in 1994 for all new judges elected or appointed after November 1994. The second system receives contributions from judges equal to 8 percent of their salary as well as investment income. The state also makes General Fund contributions to this fund annually to ensure required benefit payments to retired judges.

Governor's Budget. The Governor's budget proposal includes \$334 million (\$175 million General Fund) to support the two judges' retirement systems in the budget year. This is nearly 10 percent more than estimated for expenditure in the current year due to a \$19 million increase in General Fund to meet the required benefit payments to retired judges.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
State Operations	\$3,050	\$3,050	\$0	0.0
Local Assistance	152,656	171,716	-	-
Unclassified	149,066	159,321	10,255	6.9
Total	\$304,772	\$334,087	\$29,315	9.6
Funding Source				
General Fund	\$155,706	\$174,766	\$19,060	12.2
<i>Budget Total</i>	<i>155,706</i>	<i>174,766</i>	<i>19,060</i>	<i>12.2</i>
Judges' Retirement Fund	147,628	157,445	9,817	6.6
Judges' Retirement System II Fund	1,438	1,876	438	30.5
Total	\$304,772	\$334,087	\$29,315	9.6

Issues

Recruitment and Retention of Judges. Retirement benefits are an important factor in recruiting and retaining judges. Recent reviews of the current retirement benefits for judges find that they may not be adequate for retaining experienced judges. The Legislature may wish to modify the current retirement system so that experienced judges have improved incentives for remaining on the bench in California.

PUBLIC SAFETY

0820 Department of Justice

Background. The Department of Justice (DOJ) is under the direction of the Attorney General. The Attorney General is elected by the public and is required by the California Constitution, as the chief law officer of the state, to ensure that California's laws are uniformly and adequately enforced. The DOJ also serves as the state's primary legal representative and provides various services to assist local law enforcement agencies. The DOJ is organized into the following seven programmatic functions:

- **Civil Law**—Represents the state in civil matters and is organized in the following sections: Business and Tax; Correctional Law; Employment, Regulation and Administration; Government Law; Health, Education and Welfare; Health Quality Enforcement; Licensing; and Tort and Condemnation.
- **Criminal Law**—Represents the state in all criminal matters before the Appellate and Supreme Courts. The Criminal Law Program also assists district attorneys and conducts criminal investigations and prosecutions where local resources are inadequate.
- **Public Rights**—Provides legal services to all state agencies and constitutional officers and is organized in the following issue areas: Civil Rights and Enforcement; Charitable Trusts; Natural Resources; False Claims; Energy and Corporate Responsibility; Indian and Gaming Law; Environmental Law; Land Law; Consumer Law; Antitrust Law; and Tobacco Litigation Enforcement.
- **Law Enforcement**—Provides various services to local law enforcement and is organized into the following five elements: (1) the Bureau of Investigation conducts criminal investigations of statewide importance; (2) the Bureau of Narcotic Enforcement provides leadership, coordination, and support to law enforcement to combat the state's narcotic problem; (3) the Bureau of Forensic Services provides evaluation and analysis of physical crime evidence for state and local law enforcement; (4) the Western States Information Network provides an automated database of suspected criminal elements to law enforcement in neighboring states; and (5) the Criminal Intelligence Bureau shares criminal intelligence regarding organized crime, street gangs, and terrorist activity to other law enforcement agencies.
- **California Justice Information Systems**—Provides criminal justice information and identification services to law enforcement, regulatory agencies, and the public.
- **Gambling Control**—Regulates legal gambling activities and ensures that gambling on tribal lands is conducted in conformity with a gaming compact.
- **Firearms**—Provides oversight and regulation of firearms in California.

Governor's Budget. The Governor's budget proposal includes \$825 million to support DOJ in 2007-08. General Fund support for the department is about \$403 million, which is about \$4.8 million less than what is estimated for expenditure in the current year. This reduction is primarily due to one-time expenditures in the current year.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Directorate and Administration	\$29,195	\$29,886	\$691	2.4
<i>less distributed Administration</i>	<i>-29,195</i>	<i>-29,886</i>	<i>-691</i>	<i>0.0</i>
Legal Support and Tech Admin	52,191	53,425	1,234	2.4
<i>less distributed Legal and Tech</i>	<i>-52,191</i>	<i>-53,425</i>	<i>-1,234</i>	<i>0.0</i>
Executive Programs	16,278	16,222	-56	-0.3
Civil Law	133,391	145,990	12,599	9.4
Criminal Law	111,214	123,525	12,311	11.1
Public Rights	90,397	91,859	1,462	1.6
Law Enforcement	227,922	224,604	-3,318	-1.5
California Justice Information Services	182,731	185,961	3,230	1.8
Gambling	19,180	20,408	1,228	6.4
Firearms	18,537	16,653	-1,884	-10.2
Total	\$799,650	\$825,222	\$25,572	3.2
Funding Source				
General Fund	\$407,478	\$402,676	-\$4,802	-1.2
Special Funds	190,633	208,791	18,158	9.5
<i>Budget Total</i>	<i>598,111</i>	<i>611,467</i>	<i>13,356</i>	<i>2.2</i>
Federal Trust Fund	44,745	41,259	-3,486	-7.8
Reimbursements	44,484	43,099	-1,385	-3.1
Special Deposit Fund	2,662	2,687	25	0.9
Domestic Violence Reimbursements	1,918	1,918	0	0.0
Ratepayer Relief Fund	12,281	7,170	-5,111	-41.6
Legal Services Revolving Fund	95,449	117,622	22,173	23.2
Total	\$799,650	\$825,222	\$25,572	3.2

Infrastructure Bond. The Governor proposes \$400 million in lease-revenue bonds for a new facility to house a new DNA laboratory and to co-locate other DOJ functions that are currently housed in leased space and other facilities around the Sacramento area.

Highlights

Habeas Corpus Workload Increase. The Governor proposes \$4.8 million General Fund to augment the department's Criminal Law division to support the increased federal habeas corpus workload. Federal habeas corpus litigation arises when inmates challenge life parole decisions and revocation decisions made by the Board of Parole Hearings and prison discipline or post-sentence credit decisions made by the Department of Corrections and Rehabilitation (CDCR). These filings have increased dramatically since November 2005 when the court eliminated the requirement that inmates needed permission from the court before filing federal habeas corpus appeals.

Correctional Law Workload Increase. The Governor proposes \$2.2 million General Fund to augment the department's Civil Law division to handle the increased class action workload related to CDCR. The CDCR is currently being sued in 23 class action lawsuits, including *Plata v. Schwarzenegger*, *Coleman v. Schwarzenegger*, and others. The department expects that four additional class action lawsuits will be filed against CDCR in the budget year, further increasing DOJ's workload.

Underwriter Litigation Continues. The Governor proposes \$4.2 million General Fund to maintain staffing to continue with a class action lawsuit against insurance companies referred to as the *Underwriters* litigation. This litigation is against insurance companies that reneged on insurance coverage held by the state on the Stringfellow hazardous waste dump, thereby leaving the state with significant clean up costs on this site. The DOJ has recovered more than \$120 million from insurance companies in this lawsuit thus far.

Megan's Law Implementation. The budget proposes \$767,000 to enhance the Megan's Law website to include additional information about sex offenders as mandated by legislation (SB 1128, Alquist and AB 1849, Leslie) enacted in 2006.

Issues

Infrastructure Bond Issues. The Governor's Strategic Growth Plan includes \$400 million in lease-revenue bonds to build a new facility to replace the existing DNA laboratory in Richmond, California and co-locate other DOJ functions currently in lease space and other buildings in the Sacramento area. This is about \$200 million more than identified in the 2006 Five-Year Infrastructure Plan for a new DNA laboratory. The Legislature may wish to evaluate the level of bond funding being proposed and determine why it is significantly more than proposed in the current year. Furthermore, the department has had a difficult time recruiting staff at its DNA laboratory in the San Francisco Bay Area because of the high cost of living in this area. The Legislature may also wish to evaluate relocating the DNA laboratory to make it easier to recruit staff.

DNA Identification Funding Possibly Short in Current Year. The Governor's budget assumes that the DNA Identification Fund will receive \$16 million in revenues in the current year. This fund receives revenues from an additional \$1 penalty for every \$10 of fine, penalty, or forfeiture collected by the courts for criminal offenses and all offenses involving a violation of the Vehicle Code. This fund supports activities related to Proposition 69, a 2004 voter initiative that requires DNA collection from all felons and adults and juveniles arrested for certain crimes. The department has indicated that early revenue collections were not at a rate fast enough to

reach \$16 million in the current year and General Fund monies may be needed to backfill this shortfall to continue Proposition 69 activities in the current year. The Governor's budget contains budget bill language that allows revenue shortfalls to be backfilled by General Fund monies upon approval of the Joint Legislative Budget Committee. The Legislature may wish to determine a more realistic revenue assumption for the DNA Identification Fund that more closely reflects actual revenues.

0855 Gambling Control Commission

Background. The California Gambling Control Commission (GCC) is the primary state agency that regulates and licenses personnel and operations of the state's gambling industry. The commission regulates 55 tribal casinos and more than 100 gambling establishments and cardrooms.

Governor's Budget. The Governor's budget allocates nearly \$137 million to GCC. This is a slight decrease from estimated expenditures in the current year.

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Commission	\$142,443	\$136,827	-\$5,616	-3.9
Total	\$142,443	\$136,827	-\$5,616	-3.9
Funding Source				
Special Funds	\$40,459	\$40,327	-\$132	-0.3
<i>Budget Total</i>	<i>40,459</i>	<i>40,327</i>	<i>-132</i>	<i>-0.3</i>
Indian Gaming Rev Share Trust Fund	101,984	96,500	-5,484	-5.4
Total	\$142,443	\$136,827	-\$5,616	-3.9

Highlight

Budget Counts on General Fund Revenues from Amended Tribal-State Gaming Compacts.

The Governor's budget counts on over \$500 million in new revenues to the General Fund from five tribal-state gaming compacts that have not been ratified by the Legislature. The following five tribes have existing tribal gaming operations and have negotiated amended compacts with the administration: Agua Caliente Band of Cahuilla Indians, Pechanga Band of Luiseno Mission Indians, San Manuel Band of Mission Indians, Morongo Band of Cahuilla Mission Indians, and Sycuan Band of Diegueno Mission Indians. The amended compacts would add 22,500 new gaming devices in California.

Issue

Revenues from Tribal-State Gaming Compacts May Be Overstated. The Legislative Analyst's Office (LAO) believes that the Governor's budget overstates the amount of revenue from tribal gaming that the state will receive in the budget year by at least \$200 million. Limited information has been provided by the administration about how quickly the tribes plan on phasing in the new gaming devices. The latter assumption is critical to determining how much revenue will be received in the budget year. Furthermore, the Legislature has not ratified the amended compacts and will need to do so quickly to receive additional tribal gaming revenues in the budget year. However, even if the Legislature does act quickly, revenues may still be less than estimated in the Governor's budget because the budget may rely on overly optimistic assumptions about the phase-in of the new gaming devices.

1690 Alfred E. Alquist Seismic Safety Commission

Background. The Seismic Safety Commission is the primary state agency responsible for reducing earthquake risk to life and property. The Commission investigates earthquakes, researches earthquake-related issues and reports, and recommends to the Governor and Legislature policies and programs needed to reduce earthquake risk. Legislation (SB 1278, Alquist) enacted in 2006, renamed, in memoriam, the Seismic Safety Commission to the Alfred E. Alquist Seismic Safety Commission and moved it under the purview of the State and Consumer Services Agency.

Governor's Budget. The Governor's budget proposal includes \$3.2 million from special funds for the support of the Commission. This is about \$2 million more than estimated for expenditure in the current year. This is primarily due to a new research grant program funded from the settlement of a lawsuit. (The totals included in the table below for 2006-07 include the half-year estimated expenditures for the old Seismic Safety Commission under the organization code of 8690.)

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Commission	\$1,206	\$3,194	\$1,988	164.8
Total	\$1,206	\$3,194	\$1,988	164.8
Funding Source				
Special Funds	\$1,131	\$1,117	-\$14	-1.2
<i>Budget Total</i>	<i>1,131</i>	<i>1,117</i>	<i>-14</i>	<i>-1.2</i>
Reimbursements	75	77	2	2.7
Special Deposit Fund	-	2,000	-	-
Total	\$1,206	\$3,194	\$1,988	164.8

Highlight

New Grant Program. The Governor proposes to expend \$2 million special funds for a new grant program to fund research topics selected from the Commission's Earthquake Research Plan. The grant program is funded from monies received from the settlement of a lawsuit in the Los Angeles Trial Court. The total settlement expected to be received by the commission for the grant program is \$6 million.

1870 California Victim Compensation and Government Claims Board

Background. The California Victim Compensation and Government Claims Board's primary functions are to compensate victims of violent crime and consider and settle civil claims against the state. The Board consists of three members, the Director of General Services who serves as the chair, the State Controller, and a public member appointed by the Governor. The board also determines equitable travel allowances for certain government officials, responds to protests against the state alleging improper or unfair acts in the procurement process, and provides reimbursement of counties' special election expenses.

Governor's Budget. The Governor's budget proposal includes \$139.5 million to support the California Victim Compensation and Government Claims Board's activities. This is a slight decrease from estimated expenditures in the current year due to one-time payments to reimburse local governments for a special election in the current year. The budget does not propose any General Fund expenditures for the board in the budget year.

Current Year Spending Changes. The Governor's budget reflects an increase in spending in the current year of \$1.3 million from the Restitution Fund. These monies were appropriated in AB 50 (Leno) in the 2006 Legislative session to fund the reauthorization of an interagency

agreement between the board and the University of California, San Francisco for the operation of the Trauma Recovery Center at San Francisco General Hospital. This center is a pilot project of the University designed to develop and test a comprehensive model of care as an alternative to fee-for-service care reimbursed by victim restitution funds. This model is attempting to improve access to services for poor people, homeless people, and people with mental health needs that are victims of violent crime.

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Citizens Indemnification	\$130,125	\$128,713	-\$1,412	-1.1
Quality Assurance and Rev Recovery Div	8,795	9,489	694	7.9
Disaster Relief Claim Program	19	-	-	-
Civil Claims Against the State	1,364	1,318	-46	-3.4
Citizens Benefiting the Public	20	20	0	0.0
Administration	9,097	9,197	100	1.1
<i>less distributed Administration</i>	<i>-9,488</i>	<i>-9,704</i>	<i>-216</i>	<i>0.0</i>
Executive Office Administration	391	507	116	29.7
Counties' Special Education Reimb	1,765	-	-	-
Total	\$142,088	\$139,540	-\$2,548	-1.8
Funding Source				
General Fund	\$1,765	-	-	-
Special Funds	106,716	106,035	-681	-0.6
<i>Budget Total</i>	<i>108,481</i>	<i>106,035</i>	<i>-2,446</i>	<i>-2.3</i>
Federal Trust Fund	32,224	32,187	-37	-0.1
Reimbursements	1,383	1,318	-65	-4.7
Total	\$142,088	\$139,540	-\$2,548	-1.8

8120 Commission on Peace Officer Standards and Training

Background. The Commission on Peace Officer Standards and Training (POST) is responsible for raising the competence level of law enforcement officers in California by establishing minimum selection and training standards, improving management practices, and providing financial assistance to local agencies relating to the training of law enforcement officers.

Governor's Budget. The Governor's budget proposal includes \$62.7 million from special funds to support POST in the budget year. This is a nearly 8 percent increase over estimated expenditures in the current year. This increase is due primarily to a budget proposal to replace inoperable driving simulators used to train law enforcement.

Summary of Expenditures (dollars in thousands)				
	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Standards	\$5,396	\$5,438	\$42	0.8
Training	30,727	35,290	4,563	14.9
Peace Officer Training	21,944	21,944	0	0.0
Administration	6,036	6,167	131	2.2
<i>less distributed Administration</i>	<i>-6,036</i>	<i>-6,167</i>	<i>-131</i>	<i>0.0</i>
Total	\$58,067	\$62,672	\$4,605	7.9
Funding Source				
Peace Officers' Training Fund	56,806	61,413	4,607	8.1
<i>Budget Total</i>	<i>56,806</i>	<i>61,413</i>	<i>4,607</i>	<i>8.1</i>
Reimbursements	1,259	1,259	0	0.0
Total	\$58,065	\$62,672	\$4,607	7.9

Highlights

Replacement of Law Enforcement Driving Simulators. The Governor proposes \$3.5 million special funds to replace the eight oldest Law Enforcement Driving Simulators. These simulators are located in the State Regional Skills Training Centers and are needed as part of the Perishable Skills training required of California's peace officers every two years.

Development of Web Based Training. The Governor proposes \$650,000 in special funds to develop a new web-based training portal, including converting current CD-ROM training to web-based. The funds will also be used to create an on-line survey mechanism for determining training needs of local law enforcement.

Increase Audit Capability. The Governor proposes \$250,000 in special funds to increase the contract it has with the State Controller's Office to audit local law enforcement to ensure that local agencies are submitting appropriate reimbursement claims. This augmentation will allow the Controller's Office to complete 30 to 35 audits annually, thereby auditing every agency once within a 20-year period.

8140 State Public Defender

Background. The Office of the State Public Defender was originally created to represent indigent criminal defendants on appeal. However, since 1990, the mandate of the office has been refocused to death penalty cases. The Office of the State Public Defender litigates death penalty cases both on appeal and habeas corpus.

Governor's Budget. The Governor's budget proposal includes \$12 million to support the Office of the State Public Defender. This is approximately the same level of funding as is estimated for expenditure in the current year.

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
State Public Defender	\$11,988	\$12,040	\$52	0.4
Total	\$11,988	\$12,040	\$52	0.4
Funding Source				
General Fund	\$11,988	\$12,040	\$52	0.4
Total	\$11,988	\$12,040	\$52	0.4

8180 Payments to Counties for Costs of Homicide Trial

Background. The state provides reimbursement to counties for the costs of conducting homicide trials. Under current law, a county may apply to the State Controller for reimbursement of certain costs of homicide trials and hearings. For most counties, the maximum amount that the county may be reimbursed is based on the county population, the assessed value of property within the county, and the number of homicide trials conducted during the fiscal year. However, certain counties are reimbursed for 100 percent of homicide trial costs.

Governor's Budget. The Governor's budget proposes \$2.5 million in General Fund monies to pay counties for the costs of homicide trials. This is \$1 million less than is estimated for expenditure in the current year.

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
County Costs	\$3,500	\$2,500	-\$1,000	-28.6
Total	\$3,500	\$2,500	-\$1,000	-28.6
Funding Source				
General Fund	\$3,500	\$2,500	-\$1,000	-28.6
Total	\$3,500	\$2,500	-\$1,000	-28.6

8550 California Horse Racing Board

Background. The California Horse Racing Board (CHRB) licenses racing industry participants, enforces racing rules related to drugs and other offenses, administers efforts to protect racing horses, and oversees programs to improve the health of jockeys and other industry employees. The CHRB regulates operations at 14 racetracks, 20 simulcast facilities, and advance deposit wagering services (available via telephone or on-line).

Governor's Budget. The Governor's budget proposal includes \$10.8 million to support the CHRB in 2007-08. This is about 4 percent more than is estimated for expenditure in the current year due to one-time information technology hardware purchases proposed in the budget year.

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
California Horse Racing Board	\$10,392	\$10,818	\$426	4.1
Administration	7,011	8,115	1,104	15.7
<i>less distributed Administration</i>	<i>-7,011</i>	<i>-8,115</i>	<i>-1,104</i>	<i>0.0</i>
Total	\$10,392	\$10,818	\$426	4.1
Funding Source				
Special Funds	\$8,969	\$9,287	\$318	3.5
<i>Budget Total</i>	<i>8,969</i>	<i>9,287</i>	<i>318</i>	<i>3.5</i>
Special Deposit Fund	1,423	1,531	108	7.6
Total	\$10,392	\$10,818	\$426	4.1

CORRECTIONS AND REHABILITATION

5225 Department of Corrections and Rehabilitation

Background. The California Department of Corrections and Rehabilitation (CDCR) is responsible for the incarceration, training, education and care of adult felons and nonfelon narcotic addicts, as well as juvenile offenders. The CDCR also supervises and treats adult and juvenile parolees, and is responsible for the apprehension and reincarceration of those parolees who commit parole violations. The department also sets minimum standards for the operation of local detention facilities and selection and training of law enforcement personnel, as well as provides grants to local governments for crime prevention and reduction programs.

The department operates 33 adult prisons, including 11 reception centers, a central medical facility, a treatment center for narcotic addicts under civil commitment, and a substance abuse facility for incarcerated felons. The CDCR also operates eight juvenile correctional facilities, including three reception centers. In addition, CDCR manages 13 Community Correctional Facilities, 44 adult and juvenile conservation camps, the Richard A. McGee Correctional Training Center, and 202 adult and juvenile parole offices.

In 2005, the CDCR was created pursuant to the Governor's Reorganization Plan 1 of 2005 and Chapter 10, Statutes of 2005 (SB 737, Romero). All departments that previously reported to the Youth and Adult Correctional Agency were consolidated into CDCR. The departments consolidated into the current CDCR are: the Youth and Adult Correctional Agency; the California Department of Corrections; the Youth Authority; the Board of Corrections; the Board of Prison Terms; and the Commission on Correctional Peace Officers' Standards and Training.

Governor's Budget. The Governor's budget proposal includes \$20 billion for CDCR in 2006-07. This is 104 percent more than estimated expenditure levels in the current year due to the Governor's infrastructure proposal to issue lease-revenue bonds to build more prison beds. General Fund support for CDCR is \$10 billion in the budget year, which is nearly 9 percent (\$808 million), more than estimated for expenditure in the current year (these numbers include funding from Proposition 98). These increases are primarily due to a variety of increases to the department's support budget (\$505 million), including funding to comply with the various court orders and lawsuits, and implementation of Proposition 83 (Jessica's Law) and other recommendations of the High Risk Sex Offender Task Force.

The budget also proposes significant General Fund increases for local assistance (\$121 million) and capital outlay (\$182 million) in the budget year. The increase in funding for local assistance is primarily due to a proposed shift of a portion of juvenile offenders to local detention facilities and a new program to enhance probation services for the 18-to 25-year old population. The increased funding for capital outlay is due to the Governor's proposed infrastructure proposal that includes a sizeable increase in General Fund monies for critical upgrades to water and wastewater infrastructure at existing prisons.

Summary of Expenditures				
(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Administration	\$268,564	\$287,754	\$19,190	7.1
Sentencing Commission	-	457	-	-
Corrections Standards Authority	273,176	350,622	77,446	28.4
Juvenile Operations	202,727	207,766	5,039	2.5
Juvenile Education and Programs	168,500	178,148	9,648	5.7
Juvenile Parole	50,207	37,164	-13,043	-26.0
Juvenile Healthcare	109,057	99,571	-9,486	-8.7
Adult Operations	5,227,093	5,292,902	65,809	1.3
Adult Parole	755,593	809,195	53,602	7.1
Board of Parole Hearings	102,567	108,508	5,941	5.8
Community Partnerships	11,842	10,622	-1,220	-10.3
Adult Education and Programs	285,814	456,876	171,062	59.9
Adult Healthcare	1,615,012	1,787,033	172,021	10.7
Plata Compliance	99,716	150,000	50,284	50.4
Capital Outlay	441,534	10,054,133	9,612,599	2,177.1
General Obligation Debt	197,449	211,781	14,332	7.3
Total	\$9,808,851	\$20,042,532	\$10,233,681	104.3
Funding Source				
<i>General Fund, Non-Proposition 98</i>	<i>\$9,099,428</i>	<i>\$9,891,411</i>	<i>\$791,983</i>	<i>8.7</i>
<i>General Fund, Proposition 98</i>	<i>52,964</i>	<i>54,250</i>	<i>1,286</i>	<i>2.4</i>
<i>GO Bond Debt Service</i>	<i>197,449</i>	<i>211,781</i>	<i>14,332</i>	<i>7.3</i>
<i>less Federal SCAAP Assistance</i>	<i>-114,135</i>	<i>-114,135</i>	<i>0</i>	<i>0.0</i>
General Fund, Total	9,235,706	10,043,307	807,601	8.7
Special Funds	22,142	22,091	-51	-0.2
GO Bond Expenditures	2,885	0	-2,885	-100.0
<i>Budget Total</i>	<i>9,260,733</i>	<i>10,065,398</i>	<i>804,665</i>	<i>8.7</i>
Federal Trust Fund	147,974	143,186	-4,788	-3.2
CA State Lottery Education Fund	277	277	0	0.0
Inmate Welfare Fund	64,380	67,661	3,281	5.1
Special Deposit Fund	1,083	1,018	-65	-6.0
Public Building Construction Fund	244,095	9,677,764	9,433,669	3,864.8
Reimbursements	90,310	87,228	-3,082	-3.4
Total	\$9,808,852	\$20,042,532	\$10,233,680	104.3

Infrastructure Bond. The Governor has proposed a second phase of his Strategic Growth Plan, which includes \$10.9 billion for new and expanded prison facilities. The majority (\$9.5 billion) of this plan would be funded with lease-revenue bonds. The plan includes the following components:

- **Expansion of Existing Prison Facilities.** \$2.7 billion (\$300 million General Fund and \$2.4 billion lease-revenue bonds) to add over 16,000 new beds at existing prison facilities, expand power, water, and wastewater treatment facilities to accommodate the expanded capacity, and build a new correctional training facility in Southern California.
- **Build New Re-entry Facilities.** \$1.6 billion in lease-revenue bonds or contracting authority to construct up to 7,000 beds in coordination with local governments for inmates nearing their parole date and revoked parolees.
- **Expand Local Jails and Juvenile Facilities.** \$5.5 billion (\$4.4 billion lease-revenue bonds and \$1.1 billion local matching funds) to add 45,000 new jail beds statewide and 5,000 new juvenile beds.
- **Expand Health Care Facilities.** \$1 billion for specialized beds, treatment space, and program space for mental health services, dental services, and general medical services. These funds will be set aside until cost estimates of specific projects become available from the court-appointed Receiver in *Plata v. Schwarzenegger*.
- **San Quentin Condemned Inmate Complex.** \$117 million in lease-revenue bonds to address additional funding needed to complete construction of a new secure facility for the state's condemned population at San Quentin.

Current Year Spending Changes. The budget includes \$485 million in additional General Fund expenditures in the current year above the expenditure level in the 2006-07 Budget Act. The following adjustments are proposed to the current year budget:

- **Comply with Court Orders and Lawsuits.** \$130 million General Fund to comply with various court orders and lawsuits affecting CDCR. This includes \$35.5 million to comply with the *Coleman v. Schwarzenegger* lawsuit that was appropriated by SB 1134 (Budget) at the end of the legislative session in 2006.
- **Implement Sex Offender Management Plan.** \$30.4 million General Fund to implement Proposition 83 (Jessica's Law) passed by the voters in November 2006 and other recently-enacted legislation related to managing sex offenders. The Department of Mental Health is provided an additional \$29 million for its role in implementing Proposition 83.
- **Out-of-State Inmate Transfers.** \$10.3 million General Fund to cover the additional costs incurred to transfer inmates to out-of-state facilities to alleviate overcrowding in CDCR facilities. The total estimated costs to transport and house inmates in private prisons outside of California in the current year is \$30.7 million, which is offset by population savings related to not housing these prisoners in California.
- **Adult Population Adjustment.** \$9.7 million General Fund to fund a slight increase in the adult inmate and parole populations in the current year.

- **Juvenile Population Adjustment.** Negative \$12.4 million General Fund resulting from a delay in the implementation of smaller living units and staffing ratios required by *Farrell v. Tilton* and a slight reduction in the juvenile offender and parole population.
- **Infrastructure Adjustment.** \$13.4 million General Fund to account for various reappropriations and carryovers from capital outlay projects funded in prior years.
- **Other Adjustments.** Negative \$42.5 million General Fund for various adjustments, of which the largest is a \$30 million savings related to a delayed roll out of the Mentally Ill Offender Crime Reduction (MIOCR) grant program to local governments.
- **Employee Compensation.** \$345.7 million General Fund for employee compensation adjustments in the current year. The largest adjustment is due to a recent arbitration decision involving the California Correctional Peace Officers Association.

The Legislature already appropriated a portion (\$35.5 million General Fund) of the \$485 million in SB 1134 (Budget) at the end of the 2006 legislative session. However, the administration still needs the Legislature to appropriate two additional supplemental appropriations bills appropriating \$134.5 million to cover non-population driven deficiencies (\$124.9 million) and population-related deficiencies (\$9.6 million General Fund) in the current year. In addition to these two supplemental appropriations bills, there is a sizeable increase in employee compensation expenses that the administration plans to fund through an augmentation to the 9800 employee compensation budget item.

Adult Population Highlights

Adult Population Estimate. The Governor proposes \$58.8 million General Fund to fund growth in the adult inmate and parolee population for 2007-08. The 2007-08 average daily adult inmate population is estimated to be 177,577 and the average daily adult parolee population is anticipated to be 122,148. These populations are 2.4 percent and 2.5 percent higher, respectively, than the estimates for the current year.

Realignment of Adult Population. The Governor proposes that beginning in 2008-09, specified non-serious, non-violent offenders with terms of three years or less will serve their sentences in county jail closer to their families and communities. The Governor estimates that this will reduce state prison costs by \$250 million in 2008-09 and \$500 million by 2009-10. The Governor does not propose any savings in the budget year from this proposal.

Continue to Fill Out-of-State Beds. The Governor proposes \$13.2 million in the budget year to cover additional costs associated with transferring 2,260 inmates to prison facilities outside of California. The total estimated costs to transport and house inmates in private prisons outside of California in the budget year is \$59.7 million, which is offset by population savings related to not housing these prisoners in California prisons.

Adult Parole Reforms. The Governor's budget includes estimated savings resulting from modifications to the parole structure. The proposed modifications include: (1) automatic discharge from parole for individuals with 12 months of "clean time"; (2) no parole for some non-serious, non-violent offenders as recommended by a sentencing commission; and (3) elimination of 90-day diagnostic evaluations. These changes are estimated to result in savings of

\$56.7 million in the budget year. The administration is proposing trailer bill language to implement the first and third modification to the parole structure. The second modification would depend on recommendations made by a sentencing commission that is also being proposed by the Governor.

Juvenile Justice Highlights

Juvenile Population Estimates. Population estimates of juvenile offenders and parolees are projected to decrease in the budget year. However, there is an overall increase in funding of \$5.8 million General Fund proposed for the budget year so that the department can continue to implement smaller living units and staffing ratios to comply with the *Farrell v. Tilton* lawsuit. The 2007-08 year-end juvenile offender population is estimated to be 2,490 and the year-end juvenile parolee population is estimated to be 2,405. These populations are 5 percent and 13 percent lower, respectively, than the estimates for the current year.

Realignment of Juvenile Population. The Governor proposes reducing the number of juveniles housed in state facilities by transferring all female and some low-level male offenders to local detention facilities. This realignment of the juvenile offender population is estimated to save the state \$32.9 million in the budget year.

Eliminates Juvenile Parole Reentry Grant. The Governor proposes to eliminate the Juvenile Justice Community Reentry Challenge Grant in the budget year resulting in \$10 million General Fund savings. The department plans on continuing to allocate the grant in the current year.

Rehabilitation Program Highlights

Implement Female Offender Initiative. The Governor proposes \$3.8 million General Fund in the budget year to lay the ground work for transferring 4,350 female offenders to Female Rehabilitative Community Correctional Centers and to activate a 35-bed community based facility in Fresno.

Enhanced Adult Probation Services. The Governor proposes \$50 million General Fund for a grant program to expand local adult probation services. These monies will be used to focus on providing services to 18- to 25-year olds and will be modeled after the Juvenile Justice Crime Prevention Act program.

Rehabilitation and Recidivism Reduction Programs. The Governor proposes \$41.1 million General Fund to augment programs that reduce recidivism in the budget year. This is in addition to the \$52.8 million provided in the 2006-07 Budget Act. The Governor proposes to build on the current year efforts and continue funding educational needs assessments, substance abuse program expansions, mandatory conditions of parole, and other programs to reduce recidivism.

Pay-Parity for State Prison Teachers. The Governor proposes \$4.9 million General Fund to provide schedule and pay parity with the Division of Juvenile Justice for all teachers and vocational instructors in adult institutions.

Fund Expanded Residential Aftercare. The Governor proposes \$12.2 million General Fund in additional funding to implement recent legislation (SB 1453, Speier) that requires mandatory residential aftercare programs for some offenders. These funds will be used to maintain the

current level of drug treatment furlough beds. The drug treatment furlough beds had been funded with monies that will now be shifted to fund mandatory residential aftercare.

Healthcare Highlights

Health Care Lawsuit - *Plata v. Schwarzenegger*. The 2006-07 Budget Act allocated \$100 million to fund healthcare activities at CDCR directed by the court-appointed Receiver in the *Plata v. Schwarzenegger* lawsuit. To date, the Receiver has directed expenditure of \$50 million of this amount, which has resulted in \$55 million in ongoing expenditures that have been built into the 2007-08 base budget. The Governor's budget includes an additional \$150 million General Fund to fund new costs driven by the Receiver in 2007-08.

Mental Health Care Lawsuit - *Coleman v. Schwarzenegger*. The Governor proposes \$109.1 million General Fund for the budget year to continue state efforts to comply with the requirements of *Coleman v. Schwarzenegger*. This includes funding to increase salaries for mental health professionals and retrofit intake cells within administrative segregation units.

Dental Care Lawsuit - *Perez v. Schwarzenegger*. The Governor proposes \$78.7 million General Fund for the budget year to continue the state efforts to comply with the requirements of *Perez v. Schwarzenegger*. This includes funding a lower dentist-to-inmate ratio and for potential salary increases for dental service providers.

Other Highlights

Creates a Sentencing Commission. The Governor proposes to create a sentencing commission that will review and make recommendations on sentencing guidelines. The budget includes \$457,000 General Fund to support the commission in the budget year. The administration plans to sponsor urgency legislation that it hopes will pass the Legislature in the early months of 2007. Once established, the sentencing commission would be directed by the Governor to review and recommend changes to the parole system.

Federal Funds Cover Small Portion of Costs to Incarcerate Undocumented Felons. The budget assumes \$114.1 million in federal State Criminal Alien Assistance Program (SCAAP) funding for the budget year. The Governor's budget estimates that total costs associated with incarcerating undocumented felons in state prison will be \$897.3 million in the budget year. Therefore, federal funding will cover less than 13 percent of the total costs of incarcerating undocumented felons.

Implement Sex Offender Management Plan. The Governor proposes \$122.8 million General Fund for 2007-08 to implement Jessica's Law (Proposition 83) that was passed by the voters in November 2006, other recently-enacted legislation, and recommendations of the High Risk Sex Offender Task Force. The Department of Mental Health is provided an additional \$54 million for its role in implementing Proposition 83.

Implement Critical Information Technology Projects. The Governor proposes \$36.1 million General Fund in the budget year to fund two information technology projects, the Consolidated Information Technology Infrastructure Project and the Strategic Offender Management System. The Consolidated Information Technology Infrastructure Project will consolidate the department's current information technology infrastructure and provide the basic network

infrastructure for planned and future projects to centrally track and update inmate information. The Strategic Offender Management System will track inmate information in a centralized system.

Increase Base Funding for Facility Maintenance and Major Equipment Replacement. The Governor proposes \$69 million General Fund to augment the department's baseline budget for maintenance, special repairs, and major equipment purchases.

General Issues

Long-Term Population Management Needed. California's prison population is at an all-time high and California's prisons are filled to over capacity. The state has also been named in numerous class action lawsuits that are changing the way state prison functions. In three of these suits, motions have been filed to cap the prison population. One judge has given the state until June to improve prison conditions and relieve prison overcrowding. These issues and more have resulted in the department's current crisis management approach to managing the prison population. This is not a cost-effective or sustainable long-term approach to population management. Furthermore, it has made it difficult to establish programs and practices that improve inmates' access to programming and improve safety in the institutions. A few years ago the department started to evaluate and make long-term plans for the mission of each of its 33 institutions. However, these planning efforts have been on hold, in part, because of the healthcare Receiver and because these long-term planners are needed to assist in day-to-day crisis management.

The department needs to re-engage in real long-term population management. Just building more beds will not result in population management, the department needs to become more efficient and active at managing its population to improve safety in the prisons and reduce recidivism. The Legislature should evaluate a multi-strategy approach to help refocus CDCR on long-term population management.

Vacancies Plague the Department. The CDCR has long standing problems in recruiting and retaining staff across all classifications. The recent pay raises ordered by the Receiver (*Plata*) and Special Master (*Coleman*) for healthcare staff were to help fill the huge number of vacancies in healthcare staffing. However, the problem does not end there. Every year the state spends hundreds of millions of dollars on overtime pay because the prisons do not have an adequate number of correctional officers to cover prison operations. Correctional officer vacancies result in some officers working two consecutive shifts and many days in a row without a day off. This is not an ideal environment for the retention of staff and for the safety of the officers. In addition, vacancies also plague other areas of the department. In a recent vacancy report from the State Controller, over 1,200 positions were eliminated because they were vacant for more than six months. Nearly 400 of these positions were adult basic education and vocational teachers. Without adequate numbers of teachers it is difficult for the department to provide basic rehabilitative programming. The Legislature may wish to continue to work on creative solutions for addressing the vacancy problems that plague the department. The Legislature may also wish to consider this problem when adding additional capacity at some prisons where recruitment is especially difficult because of the location of the prison facility.

Performance Metrics Need Refinement. As part of the 2006-07 Budget Act, the Legislature requested that numerous performance metrics be included in the Governor's budget and in a separate supplemental report to the Legislature. These metrics were to help improve the transparency and oversight of the department's operations and budget. The department has provided the first round of data with the budget. However, some of the data is incomplete and difficult to interpret. The Legislature may wish to review this data and make changes to improve its usefulness in providing transparency and oversight of CDCR's operations and budget.

Infrastructure Issues

Prison Overcrowding and "Bad" Beds Impact Prison Operations. The California prison system currently has over 16,000 "bad" beds, which are bunks on dayroom floors and gyms. These bad beds impact prison operations on many levels. They make it more difficult for prison officials to maintain safe conditions for prison staff and inmates. They also reduce the space available for inmate programs. Furthermore, the overcrowding of the prison facilities has overburdened the basic infrastructure of many of the institutions resulting in sewage spills and shortages of safe drinking water.

The Governor declared a State of Emergency on October 4, 2006 citing that California's prisons are beyond capacity and that action needed to be taken immediately to remedy the situation. Soon after the declaration, the department entered into contracts with several private prisons outside of the state to house volunteer inmates. To date, the state has transferred 240 inmates out of state (160 prisoners to the Florence Correctional Facility in Arizona and 80 inmates to the West Tennessee Detention Facility). The department plans on transferring a total of 2,260 inmates to correctional facilities out of state in the current year. These efforts will help relieve some overcrowding at some facilities, but will not be enough to eliminate all of the bad beds in California institutions. The Legislature may wish to consider additional strategies to reduce the number of bad beds in California prisons.

Infrastructure Bond Issues. The Governor has proposed \$10.9 billion in bonds as part of his Strategic Growth Plan to build new and expanded prison facilities in California. There are five main components of the plan and each of these proposals raises several issues that the Legislature may wish to consider. When considering this bond, the Legislature may also wish to evaluate other strategies that may reduce the state prison population thereby reducing the needs for additional capacity at the state level. Nevertheless, there is an immediate need for additional space to relieve overcrowded conditions that impact safety and programs within California's state prisons.

Expansion of Existing Prison Facilities. The Governor has proposed \$2.7 billion for new beds at existing prisons. The Legislature may wish to evaluate the types of beds being proposed for construction and whether they address the department's needs based on the changing prison population. The Legislature may also wish to evaluate where the administration is proposing to add additional beds to determine whether it is feasible to hire the additional staff needed. The Legislature will also want to evaluate the Governor's proposal to determine if adequate space is being planned so that inmates will have access to programs within the institution. Finally, it will be critical to evaluate the existing infrastructure at the prison to determine whether it can accommodate additional beds.

Build New Re-entry Facilities. The Governor has proposed \$1.6 billion to construct up to 7,000 re-entry beds. These are a new type of facility being proposed by the administration. The Legislature may wish to consider developing general guidelines for partnering with local governments to get these facilities sited and constructed. These facilities, if designed correctly, could help to reduce recidivism by providing a critical link to the community where the offender will parole. Furthermore, these facilities could reduce the overall costs of incarcerating parole violators that are returned to prison for short stays by keeping them in the community and not transporting them hundreds of miles away to a state prison.

Expand Local Jails and Juvenile Facilities. The Governor has proposed \$5.5 billion for new jail beds and juvenile facilities. The Governor has proposed \$4.4 billion in state monies to fund local jail and juvenile facility expansions. In doing this, the Legislature may wish to determine what reasonable contributions should be made by local governments. The Governor has proposed a realignment of the prison population to shift all inmates with sentences of three or less years to serve their time at local jails as opposed to state prison. The Legislature may want to consider this as part of an overall package that includes bonds for local facilities. In addition, the Governor's proposal assumes that the state will leverage some local funds for the construction of these facilities. The Legislature may wish to explore, in more detail, how this financing relationship will be shared between the state and the locals.

Expand Health Care Facilities. The Governor's proposal sets aside \$1 billion for health care facilities to be developed by the healthcare Receiver. At this point in time, the Receiver has not determined the amount that is needed to modify the state's facilities to provide a constitutional level of health care. The Receiver has tentatively determined that he needs 10,000 non-acute specialized beds for health and mental health inmates. The Receiver is currently conducting a census of what those needs are, but could include beds appropriate for geriatric inmates, terminally ill inmates, and inmates with mobility issues.

The Receiver has indicated that he also needs to make modifications to the existing facilities in order to expand treatment space for health care services. The Legislature may wish to evaluate the Receiver's report that is due to the court in May to understand better what the infrastructure costs are related to healthcare modifications. Furthermore, the Legislature will want to determine, to the extent possible, how the administration's capacity expansion proposal coordinates with the Receiver's plans for modifications to specific facilities.

San Quentin Condemned Inmate Complex. The Governor has proposed \$117 million to complete construction of a new condemned inmate complex at San Quentin. The Legislature may wish to evaluate the amount being proposed to determine whether it is adequate to finish the modernization of the new condemned inmate complex at San Quentin. The Legislature may also want to evaluate why this project has greatly exceeded original cost estimates.

Adult Population Issues

Inmate Population Realignment Needs Review. The Governor has proposed realigning the inmate population so that specified non-serious, non-violent offenders with terms of three years or less serve their sentences in county jail as opposed to state prison. Keeping some offenders in the communities where they were committed could help to keep family connections intact and

reduce recidivism. The Legislature may wish to evaluate the impacts of this policy change on state prison capacity, local jail capacity, and recidivism rates.

Oversight Needed on Out of State Transfers. The Governor has already started transferring some inmates to private prison facilities out of state. Even though these inmates will be serving their sentence in a facility outside of the state, they will still be returned to California to parole. The Legislature may wish to evaluate the department's plans for oversight and management of this new program. It will be difficult for the state to provide the same level of oversight that it does at private prisons and community correctional facilities in state. As the state takes steps to relieve overcrowding in its institutions, the Legislature will want to evaluate the cost effectiveness of this program to determine whether it should be continued indefinitely.

Adult Parole Reforms. The Governor is proposing modifications to the parole structure to reduce costs and refocus parole resources on the most serious offenders. Currently, state parole resources are stretched thin because all persons leaving state prison are placed on parole regardless of their crime or risk of recidivism. This means that parole agents are not always able to spend adequate time working with and supervising high risk parolees. This will be further exacerbated by the passage of Proposition 83 (Jessica's Law) that will demand more parole resources for all sex offenders. The Legislature may wish to evaluate whether the Governor's proposed changes improve public safety by focusing parole agent time on the highest risk population. The Legislature may also want to evaluate the validity of the level of budget savings being estimated from the proposed parole reforms.

Juvenile Justice Issues

Realignment of Juvenile Population. The Governor has proposed transferring all female inmates and some non-violent male offenders to local detention facilities thereby further reducing the population in state Division of Juvenile Justice (DJJ) facilities. Keeping juveniles in the county of commitment improves the ability for families to stay connected which can help to reduce recidivism. The Legislature may wish to evaluate the impact of this realignment on recidivism reduction.

It is also not clear whether locals have enough capacity to accommodate this shift in the budget year. The Governor's budget counts on savings in the budget year that may be unrealistic and the Legislature will want to review this to ensure that the division does not suffer from an unrealized budget cut. Furthermore, the shift in population to the locals will change the makeup of the population at DJJ and could alter the *Farrell* lawsuit reform plans. The Legislature may wish to evaluate what changes, if any, will need to be taken to modify the *Farrell* reform plans to accommodate the change in population. Furthermore, shifting the population back to the locals will result in a lot of excess capacity in DJJ facilities. The Legislature may also wish to evaluate how this space could be used if this transfer does occur.

***Farrell v. Tilton* Reform Implementation.** The Legislature will want to review the implementation status of the various *Farrell* reform plans. The Governor's budget assumes significant savings in the current year because of a delayed implementation of smaller living unit sizes. The Legislature will want to review the implementation schedule and evaluate what, if any, hurdles are present to prevent implementation. As mentioned above, the Legislature will

also want to investigate the impacts of population realignment on the implementation of the *Farrell* reforms.

Rehabilitation Program Issues

Rebuilding Rehabilitation Strategies. In the current year, \$52.8 million General Fund was added to CDCR's budget for various strategies to reduce recidivism. The Legislature may wish to evaluate the progress the department has made in implementing these strategies and the extent to which these strategies have met recidivism reduction goals. The department's overall approach to rehabilitation has suffered for many years and the department is currently in a state of rebuilding. The Legislature approved \$900,000 to fund an expert panel to review the current state of programming within CDCR and make recommendations for improving the programming delivered to inmates and parolees. The Legislature will want to review this report and determine how to better allocate rehabilitation monies provided to the department to deliver programs that maximize reductions in recidivism. The Governor's budget is proposing \$41 million in additional expenditures to build on and expand funding provided in the current year. The Legislature will want to evaluate how this money is being allocated to determine whether it is allocated consistent with legislative priorities.

Female Offender Initiative. The Governor has proposed some nominal monies to continue laying the groundwork for a program that transfers over 4,000 female inmates to smaller community correctional facilities closer to the communities where the inmates were committed. This strategy is an attempt to reduce recidivism by strengthening relationships with family and children and improving access to programming that will help reduce recidivism. The Legislature may wish to evaluate the status of implementing this strategy and what additional groundwork is needed before the program can be fully implemented.

New Probation Grant. The Governor is proposing a new grant to enhance probation services provided by local law enforcement. The Legislature may wish to consider how this grant is structured in order to ensure its effectiveness and overall accountability. The Legislature may wish to develop performance metrics to ensure that the money is being used effectively to reduce recidivism of probationers thereby reducing the population that is sent to prison. The administration plans on modeling this grant program after the Juvenile Justice Crime Prevention Act program. The Legislature should evaluate this program to determine if any modifications should be made that would improve the program and improve its effectiveness.

Healthcare Issues

Status of Court-Appointed Healthcare Receiver. The healthcare services at CDCR have been under a federal court-appointed Receiver since 2006 as a result of the class-action lawsuit *Plata v. Schwarzenegger*. Major actions taken by the Receiver to date include approving raises for medical staff and eliminating the Medical Technical Assistant (MTA) classification that was a custody/healthcare hybrid position and replacing it with a new Licensed Vocational Nurse (LVN) classification. To date, the state has spent \$194 million General Fund most of which is ongoing funding to address the *Plata* lawsuit. The budget proposes to add an additional \$50 million in the current and budget year to continue to fund compliance activities.

The Receiver is currently working on a Plan of Action that is due to the court in mid-May. This plan will detail additional changes the Receiver plans on making to healthcare operations in the prisons. The Legislature may wish to review this plan in order to get a better understanding of what additional costs the state will need to plan for to bring healthcare services up to a constitutional level of care in the state prisons.

Increased Costs Related to Other Healthcare Lawsuits. Over the last few years the state has appropriated millions of dollars to comply with two other class action lawsuits to improve mental health care (*Coleman v. Schwarzenegger*) and dental care (*Perez v. Tilton*) within state prisons. To date the state has appropriated \$126.8 million to implement changes to improve mental health care in state prisons under the *Coleman* lawsuit and \$41.3 million to comply with the *Perez* lawsuit. The Governor's budget contains additional funding in the current and budget years above these levels to implement further changes to meet court orders in both lawsuits. The Legislature may wish to evaluate the department's implementation efforts to determine whether progress has been made in complying with these court orders. The Legislature may also wish to gather information to determine what other steps are needed to satisfy the courts so that the Legislature can plan for future expenditures.

Other Issues

Sentencing Commission. The Governor has proposed establishing a sentencing commission to review and make recommendations on sentencing guidelines. If designed correctly, sentencing commissions can improve the cost effectiveness of the state's incarceration policies. Sentencing commissions generally evaluate data to determine what types of offenders should be incarcerated. This is in contrast to the current legislative and initiative process that is not based solely on data and research in determining sentencing guidelines. The Legislature may wish to evaluate the Governor's proposal to determine whether it will be effective in improving public safety and making the state's incarceration policies more cost effective.

Sex Offender Management Plan. The Governor proposes to implement Proposition 83 (Jessica's Law) which was passed by the voters in November 2006 as well as several new policies that were recommended by the High Risk Sex Offender Task Force. The Legislature will want to evaluate the new policies recommended by the High Risk Sex Offender Task Force to determine their cost effectiveness in improving public safety. The Legislature may also wish to review whether any of the task force recommendations require additional legislation to provide clearer direction to the department on how the specific recommendations should be implemented.

0552 Office of the Inspector General

Background. The Office of the Inspector General (OIG) oversees the state's correctional system through audits, special reviews, and investigations of the Department of Corrections and Rehabilitation (CDCR). The Office is also charged with evaluating the qualifications of candidates being considered by the Governor for appointment to warden of a correctional facility or superintendent of a juvenile facility. The Office also monitors internal affairs investigations conducted by CDCR to ensure they are performed in a timely and professional manner.

Governor's Budget. The Governor proposes \$18.6 million General Fund to support the OIG. This is nearly 18 percent more than is estimated for expenditure in the current year. This increase is primarily due to a budget proposal to expand the types of investigations the OIG completes to include a facility inspection program and follow-up to critical incidents.

Summary of Expenditures (dollars in thousands)				
	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
State Operations	\$15,814	\$18,638	\$2,824	17.9
Total	\$15,814	\$18,638	\$2,824	17.9
Funding Source				
General Fund	\$15,814	\$18,638	\$2,824	17.9
<i>Budget Total</i>	<i>15,814</i>	<i>18,638</i>	<i>2,824</i>	<i>17.9</i>
Total	\$15,814	\$18,638	\$2,824	17.9

Highlights

New Audit Functions. The Governor proposes \$1.8 million General Fund to expand the audit functions of the OIG. These funds are proposed to be used to expand the types of investigations conducted by the OIG to include a facility inspection program and follow-up to critical incidents.

New Review of Candidates for Superintendent of Juvenile Correctional Facilities. The Governor proposes a little less than \$1 million General Fund to implement legislation (AB 971, Jerome Horton) enacted last year to require the OIG to review candidates for appointment as superintendent of a juvenile correctional facility.

Issues

Audit Functions Redirected from CDCR. The Governor's budget proposal to augment the OIG's audit functions is being funded by transferring \$1.8 million General Fund from CDCR's Office of Audits and Compliance. This will result in a reduction to CDCR's internal audit capability. The Legislature may wish to evaluate whether CDCR's internal audit workload has decreased and whether the transfer of funding from CDCR to OIG is justified.